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Financial Development and Access to Funding

The Case of Small and Medium-Sized Enterprises in Vietnam

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FINANCIAL DEVELOPMENT AND ACCESS TO FUNDING: THE CASE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN VIETNAM

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ABSTRACT:

Over the past three decades, Vietnam has transitioned from an agrarian-based, centrally planned economy to a mixed economy with emerging market status. Additionally, projections indicate that Vietnam will be one of the world's largest economies by 2050 if growth is sustained at present rates. The evolution of the financial sector, which began with the Doi Moi reforms in the mid-1980s, has been central to facilitating this growth. As the economy has expanded, Vietnam has maintained a gradualist approach to developing market-based mechanisms of resource allocation. However, financial markets are still in an embryonic stage and substantial reform is required if the economy is to meet the expected rates of development. Against this backdrop, this dissertation critically evaluates trends and dynamics in Vietnam's journey of financial development over the past three decades, with a particular emphasis on the experiences of small and medium-sized enterprises (SMEs). Drawing on quantitative analysis, secondary data and interviews conducted with a range of firms and stakeholders, I argue that financial development in Vietnam has had positive effects in terms of increasing access to funding for SMEs. As the financial system has developed, allocative efficiency has improved to the benefit of SMEs. However, some informants criticised the progress made to date, arguing that a funding mismatch still exists. Specifically, weak corporate governance, state-owned enterprises and a lack of derivatives have prevented effective capital market development. Given Vietnam's high level of political corruption, this paper concludes that policy makers must place more attention on the political-economic structures of Vietnam if achieving middle-income status is to occur. Specifically, a tighter and more controlled effort to dismantle corporate bureaucracy and nepotism would allow better access to funding for Vietnamese SMEs.

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AUTHORS DECLARATION:

I declare that the work in this dissertation was carried out in accordance with the requirements of the University's *Regulations and Code of Practice for Research Degree Programmes* and that it has not been submitted for any other academic award. Except where indicated by specific reference in the text, the work is the candidate's own work. Work done in collaboration with, or with the assistance of, others, is indicated as such. Any views expressed in the dissertation are those of the author.

SIGNED: ....[redacted].................... DATE: ....

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List of Tables and Figures

List of abbreviations:

IMF – International Monetary Fund

OECD – Organisation for Economic Co-Operation and Development

SMEs – Small to Medium Enterprises

FDT – Financial Development Theory

SOEs – State Owned Enterprises

FDI – Foreign Direct Investment

SOCB – State-Owned Commercial Bank

JSCB – Joint Stock Commercial Bank

FOCB – Fully Foreign-Owned Commercial Banks

NPL – Non-Performing Loan

JV – Joint Venture

GFC – Global Financial Crisis

AFC – Asian Financial Crisis

IPO – Initial Public Offering

NERC – National Enterprise Restructuring Committee

ODA – Official Development Assistance

Contents

1. Introduction:

In recent decades, the world's economic centre of gravity has been shifting away from developed nations towards emerging economies in Africa, Asia and Latin America[1]. This holds particularly true in the capital markets where investors, starved of returns from their home markets and in a perennial hunt for yield, are beginning to rethink their exposure to emerging markets, through increased asset allocation. Given their ability to generate superior capital returns (MSCI Daily TR Emerging Markets Net USD index[2], 2017), investors are increasingly looking to capitalise on favourable demographics, long-term corporate profit growth and improving returns on equity. At the same time, emerging economies constantly require injections of funding in order to fuel numerous expansion projects. As financial markets become increasingly globalised (Blundell-Wignall et al., 2018), many emerging market economies are faced with two key decisions. First, whether or not to liberalize their financial sector and develop market-based systems of capital allocation (as opposed state-based systems of capital allocation). And second, how to manage international investment flows.

These decisions parallel the journey undertaken by Vietnam, a country widely recognised as a successful developmental state that has evolved from a deprived nation with severely high rates of poverty, to a lower-middle-income country within just three decades (World Bank, 2018). Vietnam's remarkable transition from a centrally-planned economy to a market-oriented one has meant that many countries have begun to imitate its model of development, seeking to replicate the successes of Asia's "next economic tiger" (Forbes, 2016). Today, Vietnam is enjoying exceptional economic performance, boasting 6.8% GDP growth in 2017 (World Bank, 2018), and is rapidly becoming a favoured destination for business – as new houses, factories and offices are undergoing construction (King, 2018). Many argue that much of this success is owed to liberal economic reforms that began in 1986, known as the "Doi Moi", which captured the attention of the international financial community as "international investors saw Vietnam as a country ripe for entrepreneurial activity" (McCargo, 2004: 1). Yet, despite this progress, Vietnam is still at a very early stage of financial development and therefore hosts aggressive and volatile markets, meaning investors err on the side of caution. The result is a funding mismatch between what is required and what is available to fuel growth.

Small and medium-sized enterprises (SMEs) in particular, which constitute 40% of GDP and 50% of the national workforce, face significant hurdles in raising funds as the country transitions into a

[1] Emerging economies are low-income, high-growth countries which use financial development as their principal engine of growth. Most commonly, progress toward becoming an emerging economy is marked by increased liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body (Bekaert and Harvey, 2017).

[2] Over 70% of the MSCI Emerging Markets index country allocation is made up of China, South Korea, Taiwan, India and Brazil. While the remaining ~30% includes equities from Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russian, South Africa, Turkey, UAE, Indonesia, Malaysia, Pakistan, Philippines, Thailand and Saudi Arabia.

financially developed economy (Oxford Business Group, 2017). Indeed, while considerable headway has been made for the SME sector, accessing funding is the largest challenge faced by firms looking to expand business ventures (Pham and Talavera, 2018). Thus, going beyond the veil of Vietnam's economic prosperity, this thesis therefore explores, on a more granular level, how reforms have affected the nature of capital allocation, with a focus on the experience of SMEs. While there is extensive literature on financial reform and evolving capital structures in emerging markets, there is a dearth of research on the experience of firms in these contexts. Given their important position in driving emerging market growth, understanding constraints to SME growth makes for an interesting research topic.

1.1 Research Questions:

To understand the impact of financial development in Vietnam since 1986, I will be guided by two overarching research questions:

RQ1: How has financial development since 1986 changed the nature of capital allocation in Vietnam?

RQ2: What have been the unique challenges faced by SMEs in the context of economic reforms?

To answer these questions I combined secondary data with semi-structured interviews, to develop a picture of how reforms have changed the financial landscape in terms of global integration and the role of the state in allocating investment capital. My findings suggest that there are a number of barriers that SMEs face in accessing funding. First, poor corporate governance has served to undermine the reliability of financial statements and thus reduced the incentive for lenders to provide funding. Secondly, a lack of development in the derivatives market, and consequently a lack of liquidity, has meant that financial systems are not as advanced as Vietnam's counterparts. Companies looking to raise finances through more complex derivative products are not able to.

The rest of this thesis is structured as follows. Section 2 begins by situating my research questions in a theoretical framework, providing a brief summary of the debates in the literature. Specifically, I will attend to the arguments discussing financial development, using Levine (2005) as a rubric for understanding *why* a country might liberalise, before delving into sequential process of *how* economies develop. Alongside this, I introduce some of the empirical work done in this field of financial economics, synthesising econometric analysis to quantify the effects of financial development across multiple geographies. Finally, it traces the history of emerging economies that have undergone similar reforms in their financial system, framing the debate through examples where financial development has had both positive and negative effects.

Section 3 explains the methodology and data collection techniques. Within this, I critically reflect the use of process tracing, through which I applied a three-pronged approach. This methodology involved a review of secondary literature and quantitative analysis in conjunction with interviews conducted in the field.

Section 4 provides a cross-sectional analysis of the financial development at key historical junctures in Vietnam, through using the data that I have collected. In this section, I re-examine how finance has become increasingly more liberalised and how rules, regulation and reform developed alongside Vietnam's financial evolution. This paper hopes to add to the literature on financial development by providing a critical overview of Vietnam's history. Finally, I address the types of reform required to further enhance capital market efficiency in Vietnam. I argue that applying a "one-size-fits-all" approach to financial development is an overly simplistic solution to a complex problem. Specifically, in the context of Vietnam, access to finance remains difficult due to the continued dominance of state-owned entities. In order to truly understand the nature of capital allocation, therefore, one must analyse Vietnam's process of financial development through a political-economic framework.

2. Financial Development and Growth in Emerging Markets: A review of theoretical perspectives and empirical evidence

To establish the theoretical framework for this thesis' analysis, this section presents the fundamental concepts of financial development in the literature, and emphasises specifics areas of focus for this paper. At surface level, *financial development* is understood as a strategic economic reform, encouraging private sector development, with the view of stimulating economic growth (World Bank, 2013). Conventional definitions state that financial development is the reduction in the role of government in the economy, whereby responsibility shifts to the 'invisible hand of the market' (Smith, 1776).[3] However, underpinning this process of reform and liberalisation is the establishment of regulatory institutions, which seek to monitor and control financial governance (Svirydzenka, 2016)[4]. Most commonly, governments initiate financial sector reform in order to generate sustainable GDP growth, a stronger balance of payments, capital accumulation and higher inflows of foreign direct investment (Levine, 2005). Enhanced provision of financial services develops the market-based mechanisms, and consequently economic resources are allocated on the principles of efficiency (Levine, 2005). While there is ample evidence to support the benefits of financial sector development, many argue that, in practice, financial development is often pursued narrowly in the form of *financial liberalisation*. Historic events such as the Global Financial Crisis (GFC) and the Asian Financial Crisis (AFC), excellently delineate the differences between financial liberalisation and financial development, concurrently underlining why it is imperative to establish the necessary safeguards against the potential pitfalls of financial deregulation.

[3] It is worth noting that there is no universally accepted definition for financial liberalisation. Countries may choose to liberalise their financial sectors through a variety of different instruments. Post-1997 AFC, particular attention was given to capital account liberalisation (see Stiglitz, 2000). This project, therefore, focuses on the forms of financial liberalisation undertaken in Vietnam to date. This includes, deregulation of banks, relaxation of capital controls and enhanced provision of capital market services.

[4] There is no single pathway to financial liberalisation. Countries are unique. Therefore, individual countries must re-articulate a specific strategy of financial development that is tailored to their economy. This project looks beyond a 'one size fits all' policy, accounting for heterogeneity within geographic-financial structures.

2.1 Theoretical Perspectives on Financial Development

Theoretical debates relating to the relationship between financial development and economic growth are well documented in the literature, as this complex realm of academia has warranted considerable attention. However, despite spirited debates among economic and political circles contributing to both sides of the literature, a consensus is yet to be found. The theoretical groundwork of the finance-growth nexus originates with Schumpeter (1911), who stated that finance enables businesses to invest in productive opportunities, leading to economic growth. This has evolved through time, with McKinnon (1973) and Shaw (1973) becoming pioneers in the late 20th Century. The McKinnon/Shaw school of thought writes that an overbearing government impedes economic growth[5]. While more recently, Levine and King's work (1993) argues that financial intermediaries increase efficient allocation of resources through enhancing information in the market and reducing transaction costs, engendering a more productive economy. Through increased savings, mobilisation of finances and consequently investments en masse, financial development engenders economic growth.

Classical liberal economists argue that financial development is a decisive part of economic growth (Boubakari, 2010). Following William Gladstone's (1858) note that "[f]*inance is… the stomach of the country, from which all other organs take their tone*" (quoted in Buchana, n.d.: 1), advocates argue that economic growth is expected to increase on the back of more efficient allocation and mobilisation of resources, benefitting both individual savers and businesses. Specifically, the intermediation of funds and enhanced efficiency of capital allocation facilitates development of long-run investment projects, boosting productivity (Chami, Fuellenkamp and Sharma, 2010). In short, financial development promotes economic growth.

Schumpeter (1911) analysed this nexus between financial development and economic growth, arguing that financial institutions were instrumental for an economy's ability to deliver prosperity (Goldsmith, 1969). Financial intermediaries are able to leverage specialised expertise, connecting investors to innovative business opportunities, driving economic growth (Schumpeter, 1911). The core function of financial intermediaries is to act as "market makers", utilising their comparative advantage of investment knowhow; enabling financial intermediaries to actively seek out inefficiencies and identify opportunities in the market, thereby allocating funds more effectively (Levine and Zervos, 1998). This view is bolstered by McKinnon (1973) and Shaw (1973), who argued that a repressed financial sector stalls economic growth – as it discourages savings and therefore investment. In this view, the financial

[5] This essay understands economic growth as the increase in marginal productivity of capital, rather than the increase in physical capital accumulation (Jorgenson, 2005)

intermediary is unable to operate efficiently, stalling investment, thus stifling economic growth in both the short and long run[6].

Levine (2005) goes further by articulating five key benefits of financial development:

(i) efficient allocation of capital investments;
(ii) better corporate governance;
(iii) more effective mitigation of risk;
(iv) large scale mobilisation of saving and
(v) greater exchange of goods and services.

Each of these functions of finance serves to create a more productively efficient economy (Levine, 2005, King and Levine, 1993). Of all of these, the three benefits of financial development that have attracted the most attention from researchers and policy makers are: more efficient allocation of scarce resources, enhanced corporate governance and the diversification of risk (Svirydzenka, 2015, IMF, 2015).

As financial intermediaries gain more presence within an economy, enhanced provision of information reduces asymmetries and consequently, investors develop a better level of market awareness (Levine, 2005). Advances in information capabilities made available to the public provide savers with a diverse selection of investment opportunities – namely additional products on a larger scale (Bencivenga et al., 1995). Sophisticated and technical knowhow combined with these additional products serve to create a diversified portfolio, which insulates investors from sudden market shocks (Levine, 2005) and as a result ensures that savings are less sensitive to volatile movements (Svirydzenka, 2015). In accordance with this theory, Havránek et al's (2014) meta-analysis studied the relationship between development of the financial systems and long-run economic growth. Their conclusion implied a positive and statistically significant relationship between the development of the financial sector and economic growth.

In addition, analysts that invest in financial markets are able to actively manage a diverse portfolio, regularly trading and hedging their investment positions. This investment style generates a "portfolio shift towards projects with higher returns" (Levine, 2005: 875), accelerating productivity growth. Consequently, pools of capital become insured or '*hedged'* against negative demand shocks (Saint-Paul, 1992), ameliorating previous risks and catering for a more stable economic environment (Bank for International Settlements, 2002). Many market watchers apply advanced techniques of risk management, such as Harry Markowitz's Modern Portfolio Theory (MPT) (1952), which employs a mathematical framework established to explain how investors can enhance the return-risk trade-off,

[6] McKinnon's (1973) main criticism in this instance is that a repressed financial sector yields lower returns on savings, which fall below that of inflation. This is a product of inefficient allocation of capital, which compromises the ability for businesses that are earnings accretive to survive.

through considering the variance of the underlying assets in conjunction with one another. Computations conducted through the variance-covariance matrix enable fund managers to derive and pursue superior level of returns, in comparison to fund managers who analyse the volatility of assets in isolation. The adoption of these quantitative risk-mitigation techniques therefore establish higher levels of investor confidence, stimulating higher levels of investment to more profitable businesses. Overall, this yields a greater efficiency in resource allocation, accelerating growth (Bencivenga and Smith, 1991).

Some economists go further to assert that financial development is necessary for growth, arguing that financial development provides a much needed source of funding, on a significantly greater scale (Levine and Zervos, 1998; Caporale, 2004). This perspective arises from the increased level of economic integration within the global financial system, which provides additional opportunities to raise funds (Aizenman et al., 2012). On a more granular level, stock and bond market development – the primary function of which is to raise equity and issue debt, respectively – becomes increasingly important for firms who wish to tap into global pools of savings (ACCA, 2012). Development of capital market services allow firms to access liquidity more easily. Emerging markets and developing economies are able to use global resources to fund longer-term, supply-side projects (Wurgler, 2000)[7]. This form of market making allows companies to experience more growth, more new jobs and an enhanced for provision of goods and services for the everyday consumer (Bencivenga and Smith., 1995). Additionally, investors benefit from capital appreciation or from dividends/coupon payments, both of which incentivise further investment. By allocating funds to investments yielding the highest risk-adjusted returns, capital flows to the correct areas of the economy, i.e. where the most productive businesses are (Caporale, 2004).

The view that financial development is necessary for economic growth takes its roots with economists who challenge Joan Robinson's statement (1952:86) that "where enterprise leads, finance follows". In addition to theoretical papers, several quantitative economists have sought to explain causality in financial development, that is, whether it is supply-leading or demand-following[8]. In order to test this relationship, Calderon and Lui's (2003) study applies econometric modelling to the issue, concluding that there is a causal relationship from financial development to growth. Approximately 76% of developing countries exhibited a supply-leading relationship when using the ratio of private sector credit to GDP, compared to 45% for developed economies. This data implies that financial development

[7]Debt and equity markets become increasingly important in economies that have a struggling savings rate (Hamilton and Clemens, 1999). For Emerging Markets in particular, the development of the bond markets has been essential for raising corporate and sovereign debt. So much so, that across the first quarter of 2017, a record amount of EM syndicated borrowing was raised, totalling $417bn (Allen, 2018).

[8]Supply-leading hypothesis suggests that financial development engenders economic growth, while demand-following hypothesis argues that economic growth drives the need for financial services. For more literature surrounding the relationship of causality for financial development and economic growth, see: Robinson (1952), Levine, Loayza and Beck (2000) and Hartmann et al. (2012).

has a larger effect on economic growth in less-developed economies – which is the focus of this dissertation.

For Levine (2005) and Bencivenga et al. (1995) capital market liquidity is essential for the sustained funding of longer-term investment projects. Greater levels of liquidity allow investors to have easier opportunities for exit, as they can more easily sell their position – there is less risk[9]. For example, if there is a company that requires large-scale investment, and investors are looking to allocate their funds to the next big market opportunity – debt and equity markets harness the scale, the global network and the sophisticated level of technical knowledge to facilitate this process. This channelling of savings to businesses in a cheaper and more efficient way engenders economic growth[10] (ACCA, 2012; Greenwood and Jovanovic, 1990). Therefore, stock markets enable firms to acquire finances through enhancing efficient capital allocation, long-term investment and productivity growth (Paudel, 2005).

However, this strand of theory which argues that financial development enables finances to flow to areas that need it most has increasingly been called into question. For instance, Levine's theory has been refuted by many academics who demonstrate that funding does not always flow from places of surplus to places of deficit, particularly when analysing empirical data of modern economies (Chinn and Ito, 2005). Extensive cross-country research[11] shows that, despite greater provision of financial services and attractive rates of growth, the market mechanisms do not always operate under the principles of allocative efficiency. In fact, between 1990 and 2000, global capital flows did the opposite. Theoretically, financial markets should have facilitated capital flows into investment-starved emerging economies, yet flows were instead directed to credit-hungry US consumers (Schularick and Wachtel, 2014). More recently, in the aftermath of the GFC, more investors have begun to pay closer attention to the risk-premium attached to investments, demanding exceptional return as compensation for higher risk, typical of emerging markets assets (Necker and Ziegelmeyer, 2013). This more cautious, "risk-off" sentiment, combined with historical and empirical data indicates that funding does not flow to the areas that need it the most as purported in conventional theories, thereby challenging the orthodox view that financial markets enhance efficient capital allocation.

Despite political, economic and public circles touting the benefits of financial development, most academics are sceptical of the narrow approach that is often taken: financial liberalisation. Specifically, sceptics focus on the absence of adequate financial sector policies and how they can have perverse

[9] Enhanced market liquidity incentivises more actors to enter the market. Previously, long-term commitments to investing would have reduced the incentive – as there a lower likelihood that the investor will see it return (Boubakari, 2010). Buyers and sellers change positions more easily and thus enhanced liquidity increases the ability to invest. For key works on stock market liquidity see: Levine (1996), Demirguc-Kunt and Levine (1996) and Levine and Zervos (1996).

[10] Additionally, development of technology can have positive, long-term effects on boosting productivity growth through enhancing the quantity and quality of supply of goods and services.

[11] See *In the Wake of the Crisis: Leading Economists Reassess Economic Policy* (Blanchard, 2012).

economic outcomes. This line of thought is rooted in Keynes' (1936) classic thesis, which argues that speculative activities and excessive capital mobility can have destabilizing effects on the economy, warranting increased supervision. Indeed, history has displayed both benefits and costs of financial liberalisation, concluding that financial reform needs to develop alongside multiple regulatory infrastructures to ensure stability (Kindleberger, 2015, Gregorio and Guidotti, 1995). Drawing on widespread financial liberalisation in the nineties, which triggered inflationary pressures, a weakened banking system and ultimately a financial crisis, Rousseau and Wachtel (2011) argue that a lack of regulatory oversight can create and exacerbate asset boom and bust cycles –deteriorating the overall health of the economy. Consequently, investors withdraw money supply from productive sectors of the economy and as a result the level of contagion becomes so severe that market liquidity evaporates, leading to "the disappearance of the finance effect" – challenging the theoretical rationale for reform (Rousseau and Wachtel, 2011). Financial liberalisation, isolated away from the development of rudimentary regulatory structures, tends to exaggerate a country's vulnerability to economic shocks. Financial liberalisation and development, therefore, cannot be understood as mutually exclusive; a well-constructed financial system requires both increased provision of financial products and a regulatory structure to underpin them.

Stiglitz (2000) is critical of the idea that capital market liberalisation produces greater diversification of risk, stating that financial markets actually induce *instability*. The excessive mobility of capital serves to weaken financial markets, inducing fragility as investment rapidly flows in or out of the economy. Investors deposit or withdraw funding whenever an opportunity for profit presents itself or the potential of a capital loss occurs, respectively. Problems arise when large-scale movement of capital exacerbates market volatility, creating longer-lasting recessions (Agenor et al., 2006). When a country is perceived as an economic risk, investments become significantly less attractive and so banks, funds and institutional investors rapidly withdraw their capital in order to reduce their exposure and mitigate losses (Stiglitz, 2000). This quick removal of funding triggers uncertainty and an erosion of investor confidence, both internally and externally. Lenders' perception of "emerging market risk" increases, subsequently leading to capital outflows en-masse[12] (Dooley and Dooley, 1998). Academics have termed this short-term flow of funding in pursuit of profits as '*hot money'*, which can have detrimental effects for the exchange rate, aggregate demand and therefore employment (Fuertes, Phylaktis, Yan, 2014). The overall effect is a decline of investment and decline in liquidity for that country, hampering economic growth. In recent years, surging levels of 'hot money' have begun to flow into emerging markets, destabilizing vulnerable economies (Shilling, 2018)[13]. In the long-run, it is not simply a

[12] The process becomes a positive feedback loop, whereby the actions of other investors amplify the decisions of others, making the economy more fragile.
[13] Brazil, Mexico, Taiwan, Thailand and South Korea are among countries who have experienced these sudden injections and reversals of capital. As such, implementing regulation in order to control hot money had become central to future policy design (McCauley, 2010).

downturn that limits growth, but rather, impression of risk, instability and uncertainty that discourages future investment (Stiglitz, 1998).

While theory states that financial liberalisation does have the potential to spread risk (i.e. through diversification and liquidity), unregulated investments can leave household savings exposed to market crashes (Rajan, 2006). In a deregulated, more competitive environment, investors become subject to increasing pressure to generate excess returns, entailing riskier investments (Stiglitz, 2000). Regulated industries, on the other hand, have specified limits of risk appetite or provide less incentive to "seek alpha"[14]. Historically, this increased freedom given to securities traders to invest 'high-beta', riskier securities[15] has resulted in overleveraged investment portfolios and consequently a high exposure to financial loss. Specifically, Bhagat, Bolton and Lu's study (2015) explains how a less regulated financial landscape is more conducive to greater levels of risk-taking and even becomes contagious. Moreover, Allen and Gale's (2000) investigation finds that investment firms which reward performance related pay typically exhibit excessive risk, as returns that exceed expectations translate to a greater pay cheque. A short-term, "return-chasing" attitude creates incentives for financial institutions to pursue riskier investments to outperform rivals, or to please shareholders (Hellman et al., 2000). Problems, however, arise when companies become overleveraged, risk appetite becomes unsustainable and fraud becomes common practice. Financial development, if not done correctly, can have perverse outcomes for the global economy (Sahay et al., 2015). Without strong risk assessment or robust regulatory frameworks in place, financial intermediaries are free to raise their exposure and leverage beyond sustainable levels (Rossi, 1999). As a result, new bodies of literature have developed, underscoring the necessity of an established regulatory infrastructure for any financial system (Eatwell and Taylor, 2000; Keister, 2018).

2.2 Forms of Finance and Firm Preferences

As economies develop, and the need for greater levels of capital funding increases, new streams dictating flows of funding arise. Most commonly, market-based mechanisms or bank-based forms of financing are responsible for ensuring scarce resources flow to the most lucrative areas. Specifically, financial institutions, in the form of banks and capital markets, channel funds across the economy, allocating funds from areas of surplus to areas of deficit (Allen and Gale, 2000a). However, the relative importance of each form of finance differs across countries at different stages of development. This

[14] Generating alpha is a technical financial term, given to measure performance on a risk-adjusted basis. It highlights the ability for an investment to beat the benchmark and generate excess return. Typically, it is these younger, more innovative firms, which are able to generate alpha, as they may be poised for huge amounts of growth. They are, however, less established and therefore bring with them additional amounts of risk. Due to no proven business model or record of sales, start-up businesses have a greater likelihood of failure.

[15] Risky investments conducted by financial intermediaries are often criticised by the public and the media for their ability to fuel financial crisis. Most famously, the 2007-08 GFC has been cited for the creation of mortgage-backed securities consisting of sub-prime loans.

section provides a comparative analysis of the efficiency and reliability of banks and capital markets discussed in the literature.

In a bank-based financial system, banks play a fundamental role in the pooling of savings, allocation of capital, corporate governance and management of risk (Vitols, 2001; Demirgüç-Kunt and Huizinga, 2001). Although holding moderate importance in all countries, the importance of banks in the financial system varies significantly from country to country. Beck, Demirgüç-Kunt and Levine (2010) found that, for emerging and developing markets in general, bank-based forms of financing dominate the landscape. Boyd and Smith's paper (1996) corroborates these findings, explaining that smaller enterprises require smaller loans, which banks are well-positioned to provide. As such, capital markets become more desirable as an economy progresses along the development curve; the need for larger pools of funds goes hand in hand with a more established economy[16].

One orthodox argument, pioneered by Beck and Levine (2004), is that through having a greater risk appetite, stock markets further outperform banks by allocating funds towards more innovative investments. Conventionally, commercial banks[17] are more conservative in their approach to capital allocation – preferring low-risk investments or "safe-haven" assets that generate consistent returns (Morck and Nakamura, 1999)[18]. Typically, however, it is these new and exciting technology start-ups that, if successful, yield the greatest returns – albeit at the additional expense of volatility and unpredictability. For example, Tencent, Alibaba and Baidu have been some of the best performing companies in recent years – achieving double-digit growth and rising from "start-up" status to technology giants with market leading positions in a matter of years (Moritz, 2018). However, in the initial stages of development, future cash flows for smaller companies are unpredictable, collateral is limited and consequently credit scores are lower. Banks, therefore, are more reluctant to lend as these firms fall outside of their accepted risk parameter, leaving these firms unable to access bank-based liquidity (Berger, 2002)[19]. Stock markets, on the other hand, have a more relaxed investment philosophy, as they seek to maximise capital growth (Wojcik, 2009). With a higher tolerance for risk, stock markets are more likely to invest in these innovative opportunities – providing a solution to the capital deficit. Overall, bank-based financial systems have a preference for allocating their assets to more developed, more mature firms. Meanwhile, their market counterparts focus on supporting these younger, higher yielding firms (Beck and Levine, 2004). In this way, market-based systems stimulate

[16] For further reading covering the relationship between developed economies and market-based financial systems, and emerging economies and bank-based financial systems, see Singh and Hamid, 1992; Singh, 1995.
[17] It is important to delineate between commercial banks and investment banks. Commercial banks are principally focused on corporate lending via loans, while investments banks take on greater levels of risk through investing in the stock market.
[18] A safe haven asset maintains a consistent value during period of uncertainty or market volatility. Investors commonly allocate more capital into these assets during economic and/or market upsets.
[19] It is a common critique that start-ups struggle to achieve financing in bank-based financing, and is a core theme I wish to explore further in this dissertation.

growth in more innovative sectors of the economy, as they embody the risk-on sentiment required to finance such funding needs.

Although famous for their ability to diversify and thus share risk, Allen and Gale (2001) illustrate how financial institutions in market-based structures typically allow for a greater proportion of their portfolio to contain “high-beta” (more risky) assets. This paradox challenges the theoretical groundwork supporting financial development, in which risk mitigation through diversification is a fundamental characteristic of any financial market. Yet, complex forms of risk mitigation and innovative ways of hedging allow investors to place ‘riskier’ trades, containing volatile price swings (Moyo, 2014). Bank-based credit portfolios, on the other hand, typically employ a cross-sectional risk sharing strategy whereby investors hold only small amounts of one risk, typically through syndicated loan facilities (where two or more lenders agree to split the requested amount). The problem is that these strategies do not completely mitigate all macroeconomic shocks, but rather reduce the outstanding exposure (Allen and Gale, 2001). It is clear, therefore, that market-based systems have evolved to develop advanced methods of diversification and move away from more conventional risk mitigation strategies. Indeed, tailored, regulated and well-structured derivatives allow for advanced techniques of risk control (Merton, 1995)[20]. In this way, market-based economies allow for a higher risk tolerance and investment in riskier assets and business ventures. Meanwhile, advanced products allow for better risk management. Overall, this stimulates an environment more conducive to investment and growth.

Conventional literature has argued that market-based economies call for enhanced transparency among firms. This argument takes its roots in the Efficient Market Hypothesis, which writes that stock markets allow for greater access to information meaning that “prices are accurate signals for capital allocation” (Fama, 1976: 133). In bank-based financial structures, there are less regulatory requirements to provide account disclosure (Levine, 1998). Public information is therefore limited, hindering the ability to make sound investment decisions. Conversely, the day-to-day trading of stocks and bonds via the capital markets, however, means that the fair price of assets are more accurately represented. Investors are more confident in investing their money, as the system is more operationally transparent meaning that they are aware of the risks. Therefore, the market mechanisms allow for greater efficiency, as they are more able to price assets on the bond and equity markets with greater transparency. Recent history, however, challenges this assertion. Academics often contend that whether it be because of unequal access to information, mis-selling of toxic products or behavioural finance, markets can never be truly efficient (Hamid et al. 2017). The GFC, the AFC and the Dot Com Bubble all highlight the extent to which unregulated capital markets are vulnerable to mispricing.

[20] There are multiple derivatives products, each of which hope to mitigate risk. See J.P. Morgan (2013) for a more comprehensive overview of how different derivative products work.

Critics further challenge the efficient market hypothesis, stating that market-based systems are ineffective structures for allocating funds. For Llewellyn (1999), enhanced provision of information creates greater levels of volatility, resulting in hot money and asset price fluctuations. Stakeholders invested in price-sensitive assets are exposed to volatile market movements. Laffont and Maskin (1990) bolster this argument, highlighting how increased information actually reduces economic welfare as mispricing of securities engenders inconsistent returns of investments. Additional issues arise, as private information often serves to benefit insider traders, leaving uninformed investors to bear the consequences (Bhattacharya and Daouk, 2002). Specifically, those granted access to superior information exploit it, reorganising their portfolio investments accordingly – often at the expense others (Arun and Turner, 2002). Overall, there are a number of issues that arise as a result of information asymmetries which impact both retail and professional investors (Grossman and Stiglitz, 1980).

While banks and capital markets provide important sources of finance, pecking order theory writes that many firms prefer a capital structure based on internal finance rather than external finance (Myers, 1984). For stakeholders in the company, there is an incentive to minimise external finance, to avoid capital market interference (Frank and Goyal, 2003). Publicly listed companies are often subject to intense scrutiny from the capital markets, leading to company valuations driven by market expectations, which often fail to forecast correctly. In this scenario, bank-based financing might be preferable to becoming publicly traded and being vulnerable to short-term market perception (Frank and Goyal, 2003). If internal finance is not possible, firms prefer debt to equity (Barclay and Smith, 1999). This is because there are lower information costs involved when issuing debt, especially in comparison to equity. Moreover, the lending institution has no voting rights or executive decision making power. Ideally, however, firms try to avoid debt due to the negative balance sheet impact and potential for a credit rating re-evaluation. In the aftermath of the GFC, businesses are particularly cautious of taking on too much leverage, as this, combined with the potential for interest rate rises, can have dwindling effects on a firm’s financial position. Overall, pecking order theory argues that market-based financing is not preferable for firms. Companies hope to avoid drawbacks of interest rates or loss of company shares where possible.

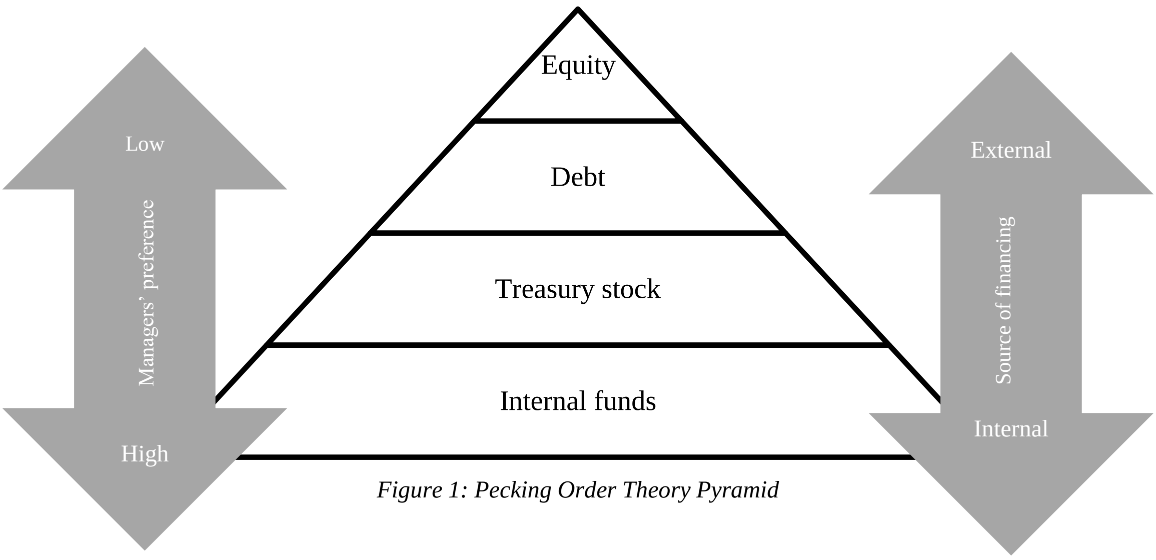

Figure 1: Pecking Order Theory Pyramid

2.3 From Financial Liberalisation to Financial Development

The previous sections have shown that, while some economic commentators are favour of quick and extensive financial liberalisation, an emerging proposition among academics is that developing markets, in particular, are much better suited to a gradualist approach (Arun and Turner, 2002; Brunnermeier et al., 2017). This gradual approach towards financial development recognises that a legal and institutional framework is a necessary pre-requisite for any country undergoing a transition into a market-oriented economy (McKinnon, 1991). In accordance with this, international bodies such as the World Bank or the IMF have developed a set of strategic recommendations, enhancing regulatory, supervisory and accountancy practices to improve transparency within the institutional infrastructure (Ito, 2005). In order to ensure effective corporate governance, countries must establish a foundational legal system which enables a stronger financial system – less vulnerable to falsification of reports and corporate malfeasance (Prasad, 2010). Indeed a well-structured financial system goes part in parcel with stability and economic attractiveness, as investors take confidence in improved levels of corporate integrity. In short, financial markets operate better and deliver more sustainable returns when a reasonable level of regulatory and institutional oversight is established.

In addition to establishing a regulatory framework governing corporate governance, the IMF recommends that strict and continual regulation of the money market via control and potential manipulation of interest rates, can prevent excessive leverage (Diamond and Dybvig, 1986). Indeed, as the flow and transmission of funds and credit through multiple channels is primarily determined by the monetary policy, such control and asset/activity restrictions are the principal means through which to regulate banks (International Monetary Fund, 2003). Interest rate ceilings, for instance, preclude banks from issuing loans to less creditworthy borrowers – streamlining their debtor book to only firms reliable enough to pay it back, while those who are more likely to default are excluded (Hellman et al., 2000). On the other hand, asset/activity restrictions impose rules on the types of risk money markets are allowed to engage in. Typically, these capital restrictions are placed on riskier activities – such as investment banking, securities trading and real-estate development projects. The core function for regulators when concerning banks, then, is to guarantee the safety of the depositor.

For Healy and Palepu (2001), companies' compliance through disclosure of information is imperative to maintaining high growth of the securities markets. Disclosure is defined as the sharing of firm-related information, allowing shareholders to make a more educated choice on whether or not to purchase ownership of that investment. Regulatory authorities are required to provide more transparency in financial and auditory accounts, as ensuring timely dissemination of accurate information of the company helps investors best allocate their resources, fostering market efficiency (Mohanty, 2002). Black (2001) states that robust rule of law on accounting and auditing standards boosts investor confidence, generating more trust in financial statements and therefore company performance. Indeed, lack of transparency and therefore a weak regulatory framework signify a fragile and unstable financial system, vulnerable to fraud, misrepresentation and consequently market crashes (International Monetary Fund, 2003).

Finally, given that one of the biggest issues challenging financial development is *'hot money'*, governments often make use of capital controls in order to manage and regulate international flows of funding. However, many economies struggle to find an equilibrium point, where they can reap the rewards of capital flows, whilst limiting adverse effects. For instance, in light of historic market crashes, emerging markets, in particular, exert caution over excessive cross-border capital flows. Academics commonly cite rapid fluctuations of mobile funding as a threat to emerging markets, challenging even those with strong economic fundamentals (Stiglitz, 1997). Thus, for those wishing to liberalise their capital account, IMF policy recommends a gradual reduction in capital controls, in order to provide freedom of exchange for local enterprise. It is important to establish strong macroeconomic and structural policies before the process of liberalisation is begun. In this case, regulating inflows and restricting outflows. Composition controls have become an increasingly popular way to prevent hot money, allowing countries to maintain commitment to a gradualist approach to financial liberalisation. In this regulatory set-up, due diligence is done on specific inflows, to prevent those of a riskier category (Ostry et al., 2012). Only specific types of capital inflow are encouraged – i.e. those that are in accordance with that country's risk preference and financial sector stability. In this way, controlled and regulated development of international flows of funding is an attractive solution for emerging markets looking to develop a sustainable means of raising finances in a well-regulated environment (Ostry et al., 2010).

In recent years, quantitative researchers have sought to highlight the importance of accounting standards, financial reporting and compliance in financial economics. Cross-country evidence indicates that transparency often leads to greater access to capital markets as well as lowering debt costs. The ACCA (2012) quantified a 1.1% growth in GDP for countries with above average standards, compared to a 0.04% for countries with below average standards. As asserted by Hammed (2005), countries exhibiting higher transparency enjoyed higher credit ratings and reduced levels of corruption. Lessons learnt from multiple financial crashes, as well as corporate scandals, underscore the importance of financial quality reporting and transparency in order to curtail fraud, promote corporate governance and maintain investor confidence (Kaufmann and Vishwanath, 2001). My empirical findings provide a more detailed analysis of the importance of accounting and auditing standards in emerging markets.

2.4 Financial Market Development in Emerging Markets

Although financial development often improves the efficient allocation of capital within the economy, there is a wealth of literature which argues that, for emerging markets, this is not always the case. There are a number of challenges in developing more efficient financial system in emerging markets. First, critics cite the role of State-Owned Enterprises[23] (SOEs) as a cause of inefficient capital allocation. Second, due to their lacklustre efforts to ensure effective regulatory systems have been established, financial development is susceptible to extreme market crashes.

SOEs, broadly accepted as the dominant economic players in emerging markets, act as a significant barrier to SMEs in accessing finance[24]. The first barrier is that bureaucratic regimes deeply entrenched in the mechanisms of capital allocation undermine efficient market hypothesis, as SOEs are "first-in-line" for funding irrespective of financial performance (Cull and Xu, 2003). The second criticism is that, because of their status in the political-economy, SOEs lack the incentive to invest and innovate. Therefore, productivity remains subdued and economic growth does not progress.

The first barrier lends itself to the notion of "policy-lending", which writes that banks operating in command economies allocate funding on the principal of State instruction, rather than their ability to service debt (Fries and Lane, 1994). In this scenario, political-historic legacy is deeply embedded within emerging markets' financial framework and dictates the direction of capital flow. SOEs, therefore, have significantly greater access than other firms competing in the same space. For many emerging economies, policy lending is a defining characteristic of the financial structures, consequently saturating the market and leaving limited funds remaining for SMEs. Lou (1993), for example, found that loans used to finance the Chinese State Planning Commission's projects, accounted for 67% of assets at the Bank of China in 1991. The problem with this, however, is that SOEs are more inefficient, as they do not operate under the principles of creative destruction and do not exist in a competitive market place. Credit, therefore, is allocated to less profitable ventures. Lardy's study (1998) built on Lou's analysis, highlighting how Chinese State-Owned Commercial Banks' (SOCBs) return on assets fell from 1.4% to 0.3% between 1985 and 1994, as their credit portfolio became dominated by policy lending. The presence of SOEs in the economy, therefore, comes part in parcel with more inefficient allocation of capital.

The second barrier is that because of their status in the economy, i.e. a vehicle for pursuit of state strategy, SOEs enjoy a high degree of monopolistic power (OECD, 2009). Whether this monopolistic power is derived from unfair government advantages such as subsidies, preferential regulatory

[23] A state-owned enterprise can be defined as a business operating under governmental control (OECD 2009)
[24] This essay additionally recognises the importance of Family Conglomerates in emerging markets and their impact on SME is well documented in the literature (Kim, Danemir and Tamer-Cavusgil, 2004; Singh, Singh and Weisse, 2002; Drozdow & Carroll, 1997; Braun et al., 2018). However, this was a topic that did not emerge within my empirical data collection, and consequently, I have chosen to exclude them from the literature review.

treatment or information advantages (OECD, 2005; Capobianco and Christiansen, 2011; OECD, 2013), SMEs struggle to compete. In this position of business sovereignty – underpinned by established patterns of consumer spending, economies of scale and the continued support of the government – SOEs lack the incentive to invest or pursue research and development projects that would raise productivity. Therefore, when SOEs receive finance, funding is flowing to unproductive business ventures thereby stalling economic growth.

In addition to a comprehensive analysis of the impact of SOEs in emerging market economies, it is useful to understand specific examples of financial development in emerging markets and investigate how the evolution of capital markets and the banking sector affects economic growth in these countries. Understanding the journey other emerging economies have undergone tells a story of *how* financial development operates in different geographies, providing more colour beyond a binary conclusion of whether the effects have been positive or negative. Tracing the financial histories of emerging economies helps to provide a rubric for understanding effective implementation of financial development. This short section, therefore, provides a brief overview of financial development in Chile and Malaysia, two countries which have reaped the rewards of such a transition.

Chile is widely cited as a nation that has undergone radical financial transformation, ending years of economic repression in a short space of time. The adoption of more business-friendly economic policies meant that Chile was able to overcome chronic inflation, extreme levels of poverty and record levels of unemployment. Dubbed as the "Miracle of Chile" by Milton Friedman (1990), financial reform, drip fed in three rounds, was first initiated in 1974, as the government focused on developing a more market-based economy. A combination of the removal of capital constraints, reduced controls over the banking sector and increased levels of privatisation (International Monetary Fund, 2015) meant that Chile's annual growth of economic expansion between 1986 and 2005 averaged at 4.8%, outpacing the rest of their Latin American neighbours (Schmidt-Hebbel, 2006). Much of the success is owed in particular to the development of the capital markets, which boomed in the aftermath of the 1982/84 banking crisis. The IMF (2015) explains how increased sources of funding meant that firms across different industries and of different sizes could now pursue expansion projects. To date, Chile has benefited from such reforms, boasting the 48th highest nominal GDP per capita (US$18,296) globally (World Bank, 2018) as well as being recognised as South America's most stable and prosperous nation. Moreover, the domestic bond market remains a chief source of credit, accounting for 40% of GDP (IMF, 2015). Overall, Chile's commitment to financial services reform has seen funds flow to the most productive sectors of the economy, ultimately stimulating growth.

Another nation frequently heralded as an economic success is Malaysia, which underwent significant stock market liberalisation and economic reform, reinventing an economy once based on mining and agriculture. In a desire to imitate the four Asian Tiger economies, the Malaysian government, in 1978, initiated financial reforms in order to host a more attractive environment for entrepreneurship (IMF, 2015). Changes implemented included deregulation of interest rates, a more globalised outlook on trade and removal of FDI restrictions. Many state that these reforms had positive effects, engendering growth rates consistently above 8.5% (IMF, 2016). For Ang and McKibbin (2007), the most notable effect of the financial sector reforms was financial deepening. The depth of the financial market catered for stronger macroeconomic stability, preventing capital account shocks. Moreover, since the AFC, there has been a consolidated effort to search for alternative sources of debt, as critics stated that Malaysia was over-reliant on foreign capital inflows (IMF, 2016). Thus, Malaysia's focus has been to allow both the banking and non-banking sector prosper by creating a strong and resilient financial system, whereby bond markets have become an integral source of financing (IMF, 2015). The bond market has doubled in size over the past ten years, as it has become recognised as the "hallmark of financial deepening [acting as a liquidity buffer] against external shocks" (IMF, 2015: 20), accounting for 71 percent of GDP (IMF, 2015).

2.5 The Asian Financial Crisis

While Malaysia and Chile are often cited for their ability to engender economic growth on the back of effective financial reform, the AFC provides additional context to financial development in emerging markets. The process of economic meltdown and subsequent of collapse are crucial to understanding more of the debates surrounding financial development (Hunter, Kaufman and Kreuger, 2012). Although the AFC is largely a result of the government floating the Thai Baht, commentators argue that an unregulated financial system was largely accountable for the market crash (Goldstein, 1998). Thus, lessons learned as a result can provide valuable information for future policy recommendations. Liberalised financial markets in Asian economies meant that firms borrowed money with unprecedented records and financial intermediaries failed to conduct diligent background checks. As a result, financial institutions allocated credit to firms that were already suffering from a heavy debt burden (Ariff and Khalid, 2000). As financial firms were in competition with one another, an incentive to generate the highest returns meant that 95% of short-term loans were lent to businesses with notoriously bad credit ratings (Krugman, 1999).

Many of these non-performing loans with a high likelihood of credit default were a result of poor risk management (Mishkin, 1999). There was no regulatory structure in place to effectively monitor the riskier loans and consequently a financial crash ensued. Domestic firms placed too much reliance on the government, as personal relationships between government and businesses meant that banks and lending institutions did not have to bear the costs of credit default (Brownbridge and Kirkpatrick, 1999). Instead, financial intermediaries relied on the government as an insurance policy, believing that they would finance their operations in the event of a credit crunch.

Rapid withdraws of funds further exacerbated the AFC as investors pulled their assets from previously prospective Asian economies. As the financial system began to crash, the market panicked and withdrew capital, in fear of an economic collapse (Corsetti, Pesenti and Roubini, 1999). Consequently, the foreign exchange market became flooded with an excess supply of Asian currencies, depressing the value of their exchange rates to record levels. A lack of investment in Asian economies coupled with high amounts of foreign debt meant each economy went bankrupt (Obstfeld and Rogoff, 2009). The short-term impacts were surging unemployment, falling levels of productivity, stagnant growth and a mass exodus of investment. The widespread population additionally felt long-term impacts, as the government reduced subsidies to education and healthcare. In the long-run, lower literacy rates also ensued, and the ability to generate a productive workforce staggered.

Post-1997, academic commentators and policymakers alike have begun to stress the importance of financial systems and regulatory regimes, in order to mitigate the potential pitfalls of finance (Mathieson, Richards and Sharma, 1998). Specifically, the introduction of institutions and policies in order to prevent the associated dangers of financial liberalisation. As a corollary, policy prescriptions in emerging markets have been centralised on stricter financial regulation, whether it be through increased transparency or supervisory controls (Volz, 2012). As policymakers seek to address the optimal path for sequential liberalisation, new bodies of literature have emerged, detailing the specifics of sequential financial development (Pomfret, 2005).

Overall, while the literature remains divided on the relationship between financial development and economic growth, with quantitative papers not serving to draw a close to the debate, the balance is tilted in favour financial development. Through increasing the amount of funding available and distributing it in a more efficient manner, financial services have the potential bolster the private sector and contribute to GDP growth. However, too often, economies have liberalised their financial sector too quickly, without establishing the correct forms of corporate governance. As history has shown, this can have a negative impact on the wider economy. This paper, therefore, underlines the importance of pursuing financial development in its entirety, rather than financial liberalisation in isolation.

2.6 Interrogating Financial Development in the Context of Vietnam

Overall, there is a general consensus in the literature that it is preferable for emerging economies to diversify investment channels. As firms of multiple sizes require different funding needs, it is important to develop both capital markets and bank-based forms of finance. As economies embark on a journey of financial development, new institutions arise that enable liquidity, efficient allocation of resources and ultimately growth. However, it is important to note that countries must adopt financial development in its entirety, as opposed to pursuing financial liberalisation in isolation. That is, reforming the financial economy alongside the establishment of comprehensive systems of regulation and effective rule of law.

Notably, the literature writes that countries must not apply a shortcut to the process, as history provides a series of valuable lessons whereby big bang approaches have backfired.

The classical arguments that financial development engenders economic growth discussed in the literature review has underpinned much of Vietnam's development approach. Indeed, its state-led development model has been a success in the decades following the Doi Moi. Drawing on this understanding of financial market development, this thesis will examine Vietnam through the lens of SMEs access to funding, which remains the biggest challenge to achieving middle-income status. Despite accounting for 77% of Vietnam's labour force in 2012, recent research indicates that approximately 30% of Vietnam's SMEs could not access funding from formal financial institutions (Nguyen et al., 2015).

3. Methodology

In order to explore how financial development since 1986 has changed the nature of funding allocation in Vietnam, and what some of the current challenges faced by SMEs are, I employed a process tracing research methodology. The primary benefit of this technique is that it provides a means of exploring the multiple causal dynamics involved in producing an outcome of a specific historical case (Beach, 2017). In this case, it offers a granular perspective of the forces that underpin the finance-growth nexus in Vietnam. As part of this process tracing methodology I leveraged a three-pronged approach involving a synthesis of secondary literature, financial data and interviews conducted in the field.

This methodology adds to each layer of analysis, catering for the required depth as well as context to gain insight into the potential mechanisms that link economic growth and financial development together; providing detail on how they intersect with SME growth in the dimension of more efficient capital allocation. The complimentary use of these three core components enabled deeper analysis of the multiple aspects of this financial-economic dilemma, thereby allowing me to collectively piece together the individual signals necessary to address the research question of this paper. This was achieved by blending quantitative and qualitative analysis, employing time-series financial data from a number of sources, primarily the World Bank, the State Bank of Vietnam and the General Statistics Office and interviews conducted in the field.

The results of this quantitative analysis provide indices of macroeconomic development, to depict the extent to which the Vietnamese economy has benefited from financial development, with an emphasis on how the nature of funding allocation has changed overtime. The trends of the following are studied: GDP growth, productivity, balance of payments, availability of credit, privatisation and foreign direct investment. The rationale for using these variables for quantitative analysis is twofold. First, they are widely accepted, across the literature, as key indicators of economic growth in emerging economies and in particular, Vietnam (Anwar and Nguyen, 2011; Bayar, 2014). Second, given that these variables have been frequently incorporated in past analysis, using them in this thesis ensures data consistency, enabling future research to incorporate my empirical results. Moreover, previous analysis conducted by Anwar and Nguyen (2011) made use of panel data over a period of 1997-2006. This research, therefore, provides an up to date analysis of economic growth situated in the context of the empirical evidence discussed in the literature review.

I carried out 13 semi-structured interviews with financial analysts, think tank staff, business owners and a Vietnamese academic between February and March 2017 (see Table 1). Each interview lasted between 20 minutes and 1 hour. Interviewees expressed distinctly different views on what financial liberalisation over the past two decades has meant for the nature and geography of funding allocation in Vietnam. Through conducting interviews with a diverse group of interviewees, this allowed for heterogeneity, which added to the richness of my project, giving a broader conceptual and theoretical foundation for the economic-geographical framework. Interviews began with a few key questions, with the intention of teasing out more detailed and more informative answers, as well enabling participants to elaborate on specific areas they felt important. Further interviews arose as a result of initial discussions, as informants introduced me to a network of willing research participants.

Respondent	**Code**	**Nationality**	**Date (2017)**
Business Owner #1	BO1	Vietnamese	23rd February
Business Owner #2	BO1	Vietnamese	25th February
Business Owner #3	BO1	Vietnamese	6th March
Business Owner #4	BO1	Vietnamese	10th March
Financial Analyst #1	FA1	British	20th February
Financial Analyst #2	FA2	American	27th February
Financial Analyst #3	FA3	Vietnamese	2nd March
Financial Analyst #4	FA4	Vietnamese	4th March
Financial Analyst #5	FA5	Vietnamese	6th March
University 1	U1	Vietnamese	21st February
Think Tank 1	TT1	Australian/British	27th February
Think Tank 2	TT2	Vietnamese	24th February
Think Tank 3	TT3	Australian	12th March

Table 1: Details of respondents for interviews

Before critically reflecting on interviews as a methodology, it is important to note the context of Vietnam as a "police-state" and therefore understand the way in which this affected how data was collected. Indeed, due to the level of corruption and overbearing nature of the State, research participants in Vietnam tend to be cautious. As such, networks and relationships must be forged prior to engaging in sensitive discussion (Hoang and Yi, 2015). In this way, I conducted social research that was participatory and built on a pre-existing relationship (Westbrook, 1995). An essential part of the project, therefore, was to follow Kindon et al's (2010) recommendations, to network with a number of individuals in Vietnam, explaining the purpose of the project and some of the findings in the literature. Prior to arriving in Vietnam, interviews were arranged with primarily universities, to work on the project collaboratively and gain as much high-level insight as possible. After having worked with both students and professors, I was introduced to business owners, financial professionals and market watchers. It became clear that relationship building and networking was an essential part of the research project. As more people were met, more business cards and contacts were shared, leading to more interviews that were rich in content.

3.1 Reflection

I primarily interviewed individuals in elite positions of society, loosely defined as those holding a status of power (Lilleker, 2003). Close dialogue, through semi-structured interviews, was particularly useful, as it allowed informants to describe in detail the intricacies of financial development within Vietnam. It became apparent that not all of the views on financial development were consistent with one another. Rather, they were contextually unique; defining the concept of financial development alone is difficult. Moreover, the ways in which companies seek to benefit from enhanced financial systems is inherently unique. Different businesses may be better suited to more traditional forms of lending, while others saw modernisation as an opportunity to access funding that was not previously available. For that reason, interviews were more applicable than surveys. Detailed and descriptive one-to-one projects were essential for understanding the multiplicity of viewpoints surrounding financial development. For Greenwich Associates (1996), close dialogue is particularly useful in documenting investment patterns and market behaviour, precisely the information this project was interested in. Secondly, I wanted to make use of a method that recognised the geographical diversity of spatial-economic systems (Martin and Sunley, 1996), attending to Krugman's argument (1991) that "stylized facts may impoverish theoretical innovation in economic geography" (quoted in Clark, 1998: 73). In this respect, I adopted a similar approach to Gerler (1996, 1993), exploiting close dialogue with industry elites in order to understand the fine-grained, substantive dynamism of the Vietnamese financial system (Geertz, 1983). Finally, financial liberalisation is contextually specific. Thus, this method was chosen in order to build a detailed case study from the knowledge of others and deeper concerns and interests than the ready-made world (Clark, 1998 and Bourdieu, 1990), explaining more important endogenous growth[26] (Romer, 1994) in Vietnam over the last two decades.

Another benefit of semi-structured interviews was that while the guideline questions had a relatively fixed structure, they were open-ended and thus conducive to depth. I was able to probe answers and perceptions pertaining to my review of the literature (Healy and Rawlinson, 1993). The main reason for this was that elites "prefer to articulate their views without being put in the straitjacket of close-ended questions" (Aberbach and Rockman, 2002: 674). This helped to provide richer, more critical analysis. The additional benefit was that, because financial development is inherently complex open-ended questions allowed for an exploration of multiple factors (Ahlstrom and Bruton, 2006). The importance of perception interviews therefore quickly became a bibliography of personal stories, each informant explaining specifically how their experiences shaped their perceptions of financial liberalisation. Heterogeneity was particularly important here as each individual discussed ideas from different perspectives. As business owners, some talked about how financial liberalisation had directly affected their business. Portfolio managers and market traders talked about how the stock market had evolved with financial liberalisation. Political thinkers spoke from an ideological point of view, explaining the

[26]The idea that economic growth a result of investment in human capital and innovation.

importance of retaining state power. Differing perspectives were particularly important for understanding the political-economic framework through which financial development operates in Vietnam – discussed at the end of chapter 4.

Although initially set on finding out general information for the wider economy, these stories became essential to the project, as they revealed processes of Vietnam's financial liberalisation and development that were unique. Specific stories of how financial liberalisation affected different sectors, different business models and those in different geographies were ideas not found among the literature. These examples surpassed beyond ideas and theories radically different from what this project envisioned and what current literature does not conceive. An additional benefit of these stories, and a common critique within the literature, is that, as Piore (1979) notes, too often interviewees lose interest in answering questions that are not specific to them. By tailoring questions to the respondents' anecdotes and being flexible in my approach, I was able to engage with the participant on a more personal level and therefore collect information that is more comparable and analyse it accordingly.

Given the role of elite's in society, obtaining access was difficult. There were unequal socio-spatial power relations at play. Thus, the first challenge to my methodology was organising the interviews. As such, the project took heed of Harvey's (2010) recommendations, which emphasises the importance of leveraging social networks to organise future interviews. Coming from a position of importance, elites often lack the incentive to devote time to research (Ostrander, 1993). This became particularly problematic for data collection, given the importance of perception and individual experiences in financial development. In order to overcome this barrier to data collection, I established a rapport with participants prior to arriving in Vietnam. Informants understood the details of the project prior to interviews. Respondents received emails, explaining the collaborative nature of the project as well as emphasising the mutual benefit of the paper in order to incentivise participation (Morris, 2009). In light of this, I adopted Homan's (1991) recommendations, to "flatter the prospective interviewee by emphasising that his or her input would be beneficial to [the] research" (Homan, 1991).

The second challenge is also an issue of power; as junior researchers are often unequipped to interview elites, and should avoid needlessly taking up their time (Dexter, 1964). The main issues were two-fold. Firstly, this project conducted research in Vietnam – an unfamiliar environment with which I had no experience in. Interviewing "elite members of society" (Bygnes, 2010: 6) in a new geographic space serves to reinforce the uneven power dialectic, as the researcher is inevitably the 'novice' (Smith, 2006). In this context, the researcher earns an 'insider/outsider' status, which can influence the interviewees' responses (Herod, 1999). Secondly, financial systems are complex and require a substantial amount of knowledge, particularly as advanced products or terminology were introduced to the conversation. Thus, the researcher must hold an extensive knowledge on particular topics, becoming an 'expert' on the subject (Harvey, 2011) and move beyond this powerless status to challenge elites (Ostrander, 1995).

This prevents a loss of information, as enhanced knowledge allows for more intense debate and thus richer data. A further criticism of uneven power relations is that interviewees tend to seek control of the interview (Burnham et al., 2004). In order to address these power relations, broad research was conducted on financial development in emerging economies in general, whilst additionally learning about the specifics of Vietnam. This enabled me to talk at length on multiple topics, as well as on contradicting opinions surrounding Vietnam's financial history.

The final criticism involves the positionality of the researcher and respondents and the potential of subjective dishonesty, as elites will agree to an interview in order to express particular points of view (Ball, 1994). It is common for elites to deflect, avoid or re-articulate the questions asked, rather than directly addressing the question[27] (Batteson and Ball, 1995). Indeed, for Goffman (1959), interviewing elites is performative, whereby informants tailor responses to convey specific arguments. In this way, information obtained is distorted and selectively chosen, resulting in an information bias towards a particular viewpoint. However, the interviewer must maintain a neutral position and respect the information provided. In order to mitigate this issue, the researcher is required to be pragmatic in their approach. Different researchers apply different approaches to dealing with subjective accounts of research material. For Richards (1996), the interviewer can cite previous interviews, to fuel discussion, show off knowledge and draw patterns that emerge from the qualitative research. Leech (2002), however, advises the opposite. Revealing information from previous interviews shows a lack of commitment to confidentiality. Interpretation of interview material, therefore, strived to be open and uninfluenced by prior knowledge. The project aimed to listen to multiple perceptions and explanations.

3.2 Secondary Data

The literature review showed that most time-series analysis of the effect financial development on growth returned a positive relationship. Meanwhile cross-sectional analysis integrated into my empirical work found the same. Although application of empirical and quantitative analysis was based on extensive sets of data, these results can be called into question through critically evaluating the reliability of these data sources and potential for outliers (Thorne, 2000). This challenge resonates particularly strongly with researchers studying emerging markets, as structural deficiencies mean that there are significant data gaps, biased data and quite often falsified numbers (Bekaert and Harvey, 2002).

In my empirical findings, the majority of data used was collected from the World Bank, the Office for National Statistics and the IMF. While all of these are well-established, reputable sources for data – one must reflect on the positionality in order to understand what might be reliable and what may be impacted by bias. It is important to note that macroeconomic data – particularly of the size and scale used in this

[27] This holds particularly true for political and economic elites, who have a desire to express strong opinions – emphasising examples that support their beliefs and downplaying narratives that conflict with theirs.

dissertation – is vulnerable to distortion (Rosenberg and Goodwin, 2016). The data used in this investigation has been created by market watchers who aggregate large amounts of statistics and therefore, there is a potential for results that may be inconsistent to the wider dataset. Financial time series data, for example, may often showcase irregular data points due to erroneous inputs, thereby reducing the effectiveness of the analysis (Bekaert and Harvey, 2002). Additionally, unrecorded flows of finance and occasions where transactions have been unaudited serve to erode the validity of such data – a key concern for countries like Vietnam who persistently score poorly on the integrity index. There is, therefore, a significant limitation to using secondary data, as researchers are not provided with a completely transparent set of data. However, as already noted, this analysis leveraged quantitative analysis from well-respected, global institutions such as the World Bank and the IMF, each of which make a concerted effort to ensure that their data collection is guided by professionalism and integrity (World Bank, 2018). While the data used might not be able to provide researchers with the complete picture down to the finest detail, the data used originates from a number of well-respected institutions.

4. Financial Development in Vietnam

This section dissects Vietnam's journey of economic reform through an analysis of its financial development timeline, critically evaluating key policy initiatives implemented. Critical historical junctures have been categorised based on changes in the government's ideological perspectives and subsequent analysis of the effects of key initiatives in the following periods:

- Doi Moi and Entrepreneurial Policy (1986-1994)
- International Integration and Market Economy (1995-1999)
- Development of Capital Markets and Increased Globalisation (2000-2007)
- Modernisation of the Financial Economy (2007-Present)

Timeline 1 offers a framework for the rest of the chapter, as key historical conjunctures create a structure for the direction for the narrative. The empirical analysis begins with the Doi Moi, as this marks the beginning of Vietnam's economic liberalisation. At each historical conjuncture I analyse the impact reform had on SMEs in Vietnam. The underlying aim of this section is to identify how the nature of capital allocation has changed, with specific focus on how firms in Vietnam raise funds. In doing a temporal analysis, I explore the multiple themes that have evolved alongside Vietnam's gradualist development.

However, it is useful to situate this narrative in the wider historical context. Following independence from French colonists, the Vietnamese government made use of recentralised economic management (Beresford, 2008). Control over enterprise guided the population away from capitalist ventures and allocated resources in a way they thought best for society. Although not a complete copy of the Soviet model, Vietnam implemented a similar economic system, based upon the principles of collectivisation and physical output targeting (Leung, 2009). Vietnam was a closed-off agrarian-based export economy, and the Vietnamese State governed the majority of enterprise up until the mid-1980s.

The Democratic Republic of Vietnam's business model, however, came under intense pressure as economic isolation resulted in a failure of the authorities to manage factor inputs effectively. The means of the State did not allow for a rational pricing structure, and therefore could not allocate resources efficiently (Irvin, 1995). Hard-reform socialism, which took place in 1981, attempted to re-centralise economic management and correct said inefficiencies. The result of this however, was a substantial state budget deficit and hyperinflation, as decisions by government to print money exacerbated the underlying problems (Painter, 2005).

1986: Doi Moi Reforms

- Born out of the result of socio-economic crisis, the Doi Moi reforms illustrate a movement away from a centrally planned economy to a socialist oriented market economy.
- Vietnam implemented a centrally planned economy controlling the supply and demand of goods and services. Without the support from private sector, Vietnam economy had experienced a recession for a long time alongside an undeveloped financial market: the banking system was 1-tier, no stock market, no investment funds.
- The State acknowledged a multi-sector economy including the private ownership of production materials and properties. The government eliminated state subsidies for and equitized the inefficient SOEs encouraged the private ownership and investment in production.
- The result of the economic reforms was 30,000 new businesses, annual GDP growth of 7.3%, export market growth of ~20% and more foreign firms investing in Vietnam.

1987-1988 Decision No. 218/CT & No. 53/ND

- Transition from a single-tier banking system where the SBV controlled all domestic banking services. State-owned banks had complete control on what went on in the economy. Doi Moi implemented under the realisation that banking sector was uncompetitive and was constraining private enterprise and therefore economic growth. Split into two tiers, with the SBV as the central bank but also four specialised SOCBs which were still owned by the State but run commercially.
- Functions of central banks and commercial banks were separated. Alongside this, new banking laws and regulations have encouraged the growth of the sector and have channelled more capital, stimulating economic growth.
- The government eliminated state subsidies for and equitized the inefficient SOEs, encouraged the private ownership and investment in production. Majority of bank credit still to state sector (rising from 1% in 1991 to 10% in 1997). At this point in time, only 4 SOCBs and a small number of credit cooperatives until 1990. This number, however, grew to over 60 banks in 1994.

1987: Law on Foreign Investment

- The Law on Foreign investment is centralised on cooperating with foreign countries in order to support the cause of modernisation, industrialisation and development of the national economy.
- Over the next couple of years, Vietnam attracted significant FDI which is attributed to promulgation of a liberal FIL. FDI inflow increased from $0.32billion to $9billion 1988-1996 ^ 28% YOY.
- FDI become particularly important for employment growth, industrial output and more recently in providing investment capital and stimulating export growth.
- Overtime, revisions have been made to the Law on Foreign Investment, reducing red tape and bringing corporate governance closer to international standards.

1990-2012: International Integration

- WTO Membership and US Bilateral Trade Agreement
- The BTA provided for "normal trade relations" (NTR) status of Vietnamese goods in the U.S. market. It was expected that access to the U.S. market would allow Vietnam to hasten its transformation into a manufacturing-based, export-oriented economy. Furthermore, it would attract foreign investment, not only from the U.S., but also from Europe, Asia and other regions.
- Trade deals and membership of the WTO gave Vietnamese exporters access to numerous foreign markets.
- Protected industries, however, have had to face significant reform in order to remain competitive. For example, domestic banks were put up against foreign competition, squeezing their profit margins.
- WTO membership has also meant that Vietnam is required to comply with a unified regulatory framework, bolstering investment appetite for Vietnam.

2000 & 2005: Capital Markets

- Establishment of the Ho Chi Minh (2000) and Hanoi (2005) Stock Exchanges as an alternative mode of capital raising.
- In order to restrict monopolistic control from foreign entities, investors were limited to 20% foreign ownership of equities and 40% for bonds. However this has moved up to 49% over recent years.
- Regulated by the SSC (but not enough to instil confidence in investors).
- A number of SMEs have gone public, listing their stock on the capital markets.
- The government has offered tax to companies who list their stock, in order to fuel the development of capital markets.
- Despite optimistic growth for the stock and bond markets very encouraging but a long way to go. Most specifically, establishing a comprehensive regulatory framework through which companies operate in.

2005: Law on Enterprise

- Introduced in order to encourage foreign investors to allocate their capital within Vietnam, facilitating growth foreign business growth. The Enterprise Law enables businesses to register before being accepted by the government (Nguyen and Ramachandran, 2006). As a result, entrepreneurial activity, characterised by private firm registration, doubled in volume in 1999 when compared to previous years.
- The Law on Enterprise allowed for a common legal framework among all firms in Vietnam. It created a more levelled-playing field for private sector and public sector.
- Movement to a more prosperous job market and effective regulation has resonated strongly among business owners who have no doubt enjoyed these radical changes (World Bank, 2016). Weak implementation of the enterprise law has resulted in many business licenses being revoked, thus stalling growth.

UPCoM

- UPCoM is an OTC market for companies that want to go public but not list.
- Increasing numbers of SOEs are beginning to use UPCoM as a platform for equitisation, following pressure from the government to sell off inefficient entities. Under this plan, nearly 500 SOEs equitized between 2016 and 2017. Big names such as MobiFone, Satra, Benthanh Group, Viet Nam Tea are beginning to list on UPCoM
- Perhaps the main drawback of the OTC markets is the lack of transparency. While these markets function well during periods of growth, poor regulation can cause a vicious circle to develop during times of financial stress.
- Given the growth of UPCoM, the government as given considerable effort to ensure regulation is up-to-date. This is in the hope that more investors will look to hold capital in Vietnam and that more firms will join the market, expanding as they do so.
- To trade on UPCoM, companies need only meet simple conditions, like charter capital of over VND10 billion ($448,200) and more than 100 investors.

Core Focus on the Vietnamese Market Economy:

1. Reform SOEs to allow private enterprise to flourish
2. Give private business more freedom and access to credit
3. Price and trade liberalisation

Timeline 1: A Timeline of Vietnam's Financial Development

4.1 1986-1994: Doi Moi & Entrepreneurial Policy

After decades of acute economic hardship and crisis, the Socialist model became unpopular. Pressure from technocrats and those in favour of market reform forced a revaluation of traditional socialist ideologies and capital structures. What emerged was a vision of a hybrid economic model combining elements of socialism but integrating market mechanisms, such as opening up to international trade and investment, establishing laws on private business and introducing property rights (Vuving, 2012). Overall, by liberating the markets, Vietnam would correct persistent market inefficiencies and generate a more productive economy (Che et al., 2002).

This new approach was reflected in Decree 217/1987/HBDT, which dismantled state bureaucracy and created an entrepreneurial environment through which firms could operate. The Corporate and Private Enterprise Laws (1990) shortly followed, allowing private enterprise to develop in order to reinvigorate the struggling economy. Prior to the establishment of these laws, the State implemented authoritarian control over business, prohibiting private enterprise to the extent where it was illegal. One interviewee shared their experience of private enterprise in Vietnam prior to reform:

> *Before 1986 you have to queue in line to buy your meat by a state-run company you're not allowed to buy a cow and butcher it and bring it to city yourself, business is against the law... It was mind-blowing. The ability to run your own business was a completely forgotten concept prior to the reform (BO1, 2017).*

New legislation enabled private enterprise to compete in most fields of business, except those defined as '*strategically*' or '*critically*' important to the State (BO2, 2017). This included matters of national interest such as the military, telecoms, money printing etc. Following this, SMEs quickly became the engine for growth in Vietnam's economy, as 17,400 new businesses started up by 1994 (see Figure 2). As part of the wider reforms, the State acknowledged, and committed to, the protection of private ownership of land and capital, which encouraged the private sector to invest and grow rapidly (World Bank, 2014). At the same time, equitisation of SOEs also created chances for further private investment in economic sectors (Truong et al., 2004). Investment and capital therefore flowed to the areas that needed it the most (BO2, 2017).

The next stage of Doi Moi focused on reforming SOEs through *Decision 143-HDBT* (1989/1990), which was a radical programme intended to shrink the number of loss-making SOEs and address the State's growing budget deficit. While SOEs exist in order to govern particular sectors of the economy in the interests of the people, they have historically exhibited poor performance due to inefficiencies, corrupt management, and low profitability (Nguyen & Dijk, 2012).

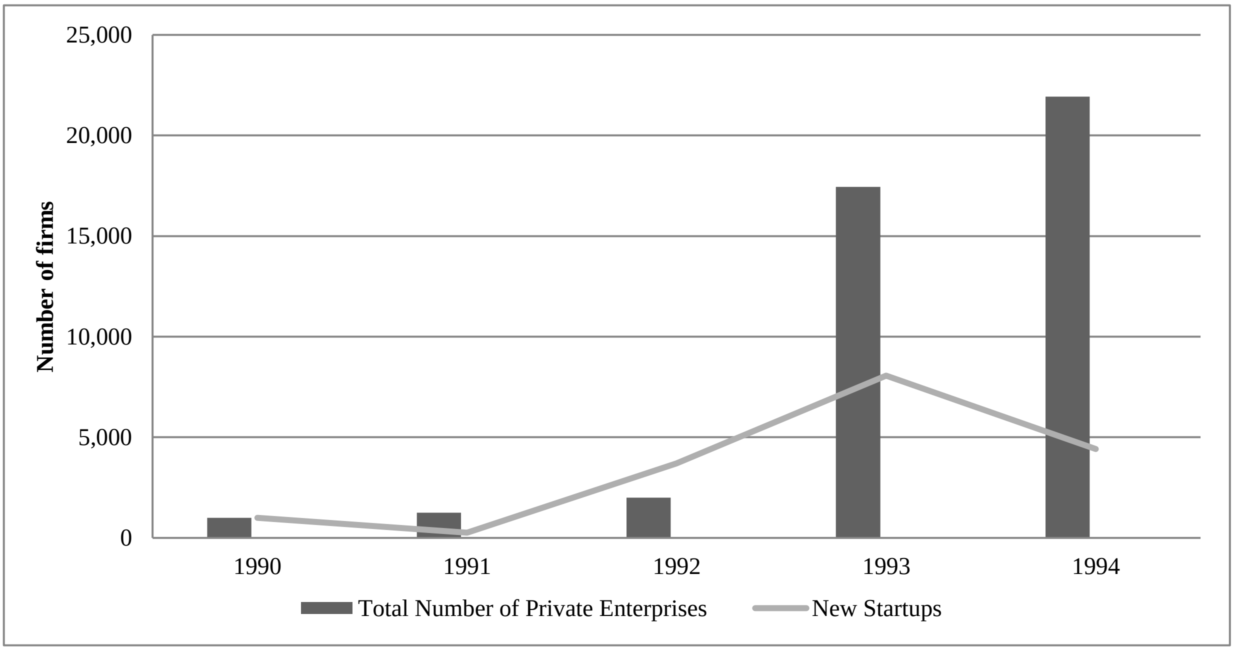

Figure 2: Private Sector Enterprise Growth 1990-1994
Source: World Bank (2014)

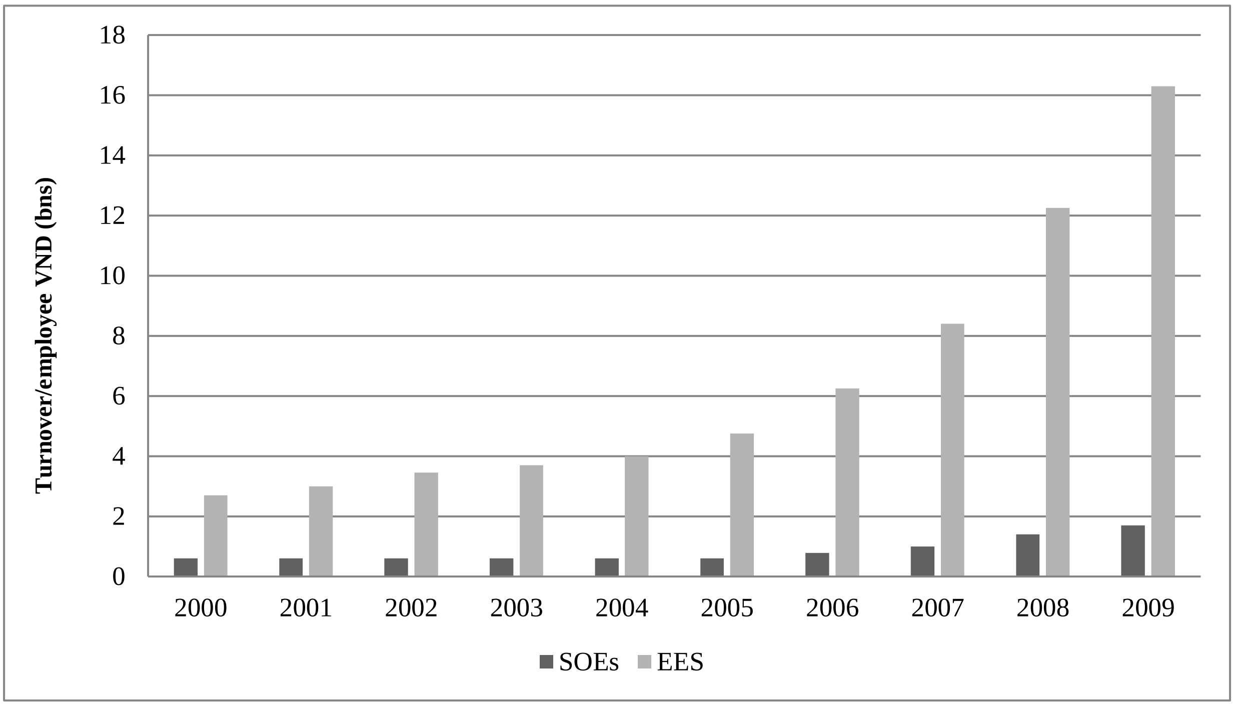

Figure 3: Average net turnover-to-employee ratio (proxy for labour productivity, in billion VND)
*Source: World Bank (2011) *note: while the period here does not correspond to the timeline above, it is indicative of the disparity between SOEs and private enterprise in general. (EES = Entire Enterprise Sector)*

Responses of initial reforms were positive. The number of SOEs halved from 12,000 to 6,000 over the course of three years, as the most inefficient companies underwent closure or merged with other companies (McCargo, 2004). Figure 3 gives a further indication of the disparity between SOE performance and private-side performance, as productivity levels are considerably lower for SOEs. Due to a lack of competition, minimal incentive to generate profit and often corruption, the majority of SOEs in Vietnam have continuously been loss making (Wright and Nguyen, 2000). Low profitability means that SOEs rely on other state enterprises or banks in order to finance operations, resulting in excessive levels of debt[28]. The result of SOE reform therefore means that funding flows to more productive enterprise and savers have the opportunity to investment in better business opportunities.

Given the socio-economic costs of SOEs, the State made a consolidated effort to accelerate the process of equitisation[29]. A pilot programme began in 1992, which focussed on equitizing and reducing benefits to small-medium sized SOEs in non-strategic sectors of the economy – such as cement, paper, steel and fertilizer. By eradicating direct subsidies to SOEs, the government hoped to incentivise competitive practice (Griffin, 1998). However, these efforts were lacklustre. The pilot scheme resulted in only five SOEs transferring business operations to the private side of the economy by May 1996. By 1994, the government made a further push in reducing the number of SOEs, namely through creation of General Corporation and Special Corporations for specific economic sectors (see Table 2). Although still under control of the State, these measures reduced costs and improved general efficiency. However, dominance of SOEs persisted to pose a major problem to the development of Vietnam's financial system and overall economy.

Vietnam Electric Corporation	Vietnam Settle Corporation
Vietnam Coal Corporation	Vietnam Coffee Corporation
Vietnam Petroleum Corporation	Vietnam Tobacco Corporation
Vietnam Cement Corporation	Vietnam Paper Corporation
Vietnam Maritime Corporation	Northern Food Corporation
Vietnam Civil Aviation Corporation	Southern Food Corporation
Vietnam Post and Telecommunications Corporation	Vietnam Chemicals Corporation
Vietnam Gemstones and Gold Corporation	Vietnam Rubber Corporation
Vietnam Textiles and Garments Corporation	Vietnam Railways Union

Table 2: List of General Corporation and Special Corporations under control of the State
Source: (Kokko and Sjoholm, 2000)

[28] Vinashin, previously a state-owned shipbuilding company operating during 1996-2010 exemplified such criticisms. The company accumulated mass debt (US$4.4billion), terminated several contracts and operated under corruption through the falsifying of reports (Duong, 2015).
[29] Equitisation of SOEs refers to the process whereby a SOEs transition to the private side of the economy, through converting into joint stock companies

An additional issue challenging Vietnamese enterprise was that SOCBs' politically induced bias towards failing state companies left less funding available for private companies. Thus, following mounting levels of bad debt, the banking system separated into two tiers. This was to correct the inefficiencies of misallocated capital and ensure that investment was reaching entrepreneurs. These reforms, labelled *Decision No. 218/CT* and *Decision No. 53/ND* (1987-1988), transitioned the mono-tiered banking system into a two-tiered banking system. Before 1988, the Vietnamese banking sector compromised of four major SOCBs and one minor SOCB, where commercial banks controlled loan services for foreign trade, agriculture, industry and commerce, investment and development (SBV, 2012). However, the establishment of a two-tiered banking system liberated the private-side of banking, providing alternative investment sources to prospective enterprise. Commercialised banks mobilised public savings and fostered a more efficient network of industry knowhow, leading to more investment in areas that had previously struggled to raise funding (U1, 2017). However, these large SOCBs lacked the competitive efficiency to keep up with China, Malaysia and Thailand (World Bank, 2014). Overall, while considerable headway had been made in channelling funds to more productive enterprise, SOCBs continued to present a barrier to further progression. A number of firms, therefore, lacked the capital funding necessary to pursue both day-to-day operations and longer term growth plans.

The government introduced banking reforms due to a collective realisation that a high proportion of funding was flowing from SOCBs to inefficient SOEs, generating an unsustainable level of non-performing loans (NPLs)[30]. Enjoying a high degree of market dominance in Vietnam, SOCBs held claim to 80% of the banking sector's assets (Leung, 2009). This meant that the majority of available funds flowed to SOEs, despite their tendency to limit long-term economic growth. One interviewee explained that, although reforms were making progress in the right direction, policy-lending remained dominant in the credit landscape, *"Credit facilities were afraid to not lend to SOEs. When the State asks for a favour, you don't take any risks in saying no"(FA1 2017).* The overwhelming proportion of investment funnelled towards SOEs remained the major challenge to effective financial development. According to a report from the IMF (1999), in 1997, only 40% of SOEs were termed "profitable", 44% as "temporary loss-makers" and 16% as permanent loss-makers". Government intervention, through channelling credit to loss-making SOEs, created inefficiencies, as scarce resources were misallocated.

The main way in which this form of financial liberalisation changed the nature of capital allocation is that it allowed firms, namely the private sector, to borrow and raise funds publicly. The separation into a two-tiered banking system, combined with the deregulation of interest rate ceilings meant that banks had a higher freedom – and thus appetite – to lend to business organisations (Leung, 2009). Where previously SOCBs saturated the banking market and thus erected a major barrier to accessing funding, financial reform and deregulation of interest rates allowed more capital to reach the private sector.

[30] Non-performing loans occur when a debtor has not made their payments for at least 90 days.

Consequently, firms of varying sizes, operating in various industries had easier access to funding (BO3 2017; U1 2017).

Banking credit to the private sector showed a marked improvement, increasing by 36.7% between 1990 and 1996 (McCarty, 2001). Effects were additionally felt among my research participants, who drew on their personal experiences, highlighting how since the development of commercial banks, accessing finance for their business was easier and more efficient (FA2, 2017). However, given the rising levels of NPLs in Vietnam, deregulation of interest rates was gradual, in order to enable greater lending meanwhile filtering out the unreliable debtors. Vietnam's steady approach to interest rate deregulation highlights how financial development has proceeded in Vietnam, showcasing how a gradual and well-executed approach can have positive effects on business growth.

Despite encouraging results from the two-tiered banking system and increasing amounts of policy stipulating that SOEs were no longer to enjoy favourable access to finance, private sector entrepreneurs still faced discrimination in raising funds. Many of my informants talked at length about how strict regulatory practices prevented the private sector from enjoying freedom in accessing capital funding. For example, a financial analyst claimed *"Start-ups had no chance. Even with new regulations aimed at making finance more accessible, you had to be well-known in business "* (FA2, 2017) while another summarised the essence of the problem: "*When competing against State-Owned Enterprises for capital in a centrally planned economy, there is only one winner"* (FA1, 2017). The idea of having a "business credibility", or "collateral" was one of many factors that prevented the private sector from expanding. Banks were reluctant to invest or loan capital to businesses who did not have an established business reputation or historic financial statements to prove sound business performance. These findings corroborate Leung's (2009) analysis of financial reforms in Vietnam, which explained that firms had to prove two consecutive years' profits before attaining a loan. Start-up businesses, therefore, found it incredibly difficult to secure lending.

Although the Doi Moi reforms endeavoured to level the playing field among businesses in Vietnam, a funding bias towards SOEs persisted, meaning that SMEs struggled to finance business operations. The problem lay with the Investment Planning Department, an instrument of the State that allocated investments and factor inputs across multiple provinces in Vietnam (TT3, 2017). As business relationships and networks – confined to agents of the State – determined the majority of credit allocation, smaller firms struggled to access liquidity. Of the limited number of financial intermediaries that were available to provide credit, they were under control of the government (FA5, 2017). This meant accessing funding was difficult for private enterprise. The bulk of trade and investment, therefore, tilted heavily towards the State sector, limiting the prospects for future growth. As one business owner pointed out, *""Strategic industries" were the industries that got funding" (BO3, 2017)*. Relationships between the State and SOEs meant that capital did not flow to areas that needed it most. Interviewees revealed that these relationships were the reason for *why* reforms did not translate into significant changes in capital allocation in practice.

Clearly, as funds flowed primarily to SOEs, businesses operating in the same industries struggled to mobilise the large amounts of capital required for expansion. As an alternative, relational financing – typified by financing from families, friends and personal networks – became the dominant method through which firms could raise funds. Leveraging capital from personal networks is a value traditional to, and embedded in, Vietnamese business culture. This form of fundraising, whereby entrepreneurs to obtain "seed money" from a close circle of personal contacts, is known as relational financing. In the initial stages of reform, relational financing remained a popular way to fund operations and, today, at the lower end of the business scale, relational financing remains the dominant mode for accessing funds:

> *The first $50,000 required to set up operations was raised from friends, family and other networks built over the years. It took quite a lot of us to pool that capital together, as it was a relatively big sum. (BO3, 2017)*

Due to a limited supply of investment channels, personal networks were the main source of funding for private enterprise, whilst close ties with SOCBs allowed SOEs to finance their operations. Despite extensive efforts to enhance liquidity and allocate funds more efficiently, a number of contextual factors posed a problem to Vietnam's credit deficit.

Following initial developments in economic policy, General Secretary Nguyen Van Linh continued to implement sweeping changes to the Vietnamese economy – most notably introducing the new *Law on Foreign Direct Investment in 1987* (Anwar and Nguyen, 2010). This initiative legitimised FDI, offering alternative sources of capital to stimulate growth of the private economy, as initial waves of credit exceeded 10% of the country's GDP in 1994 (Vietnam GSO, 2010). In comparison to other developing countries, Vietnam stood to benefit the most, as FDI inflows relative to the size of its economy outstripped its peers (Beresford, 2008). Inflows of FDI into Vietnam significantly contributed to the development of a corporate community, fuelling economic growth as new projects and new developments became affordable:

> *Suddenly with Vietnam you just saw all these previous barriers to investment get lowered. There was a mass arrival of capital in this new found and newly booming economy. Foreigners wanted to buy Vietnam, they wanted to get their foot in the door early and be the first to benefit from relaxed investment laws (FA2, 2017)*

Prior to the Foreign Investment Law in 1987, investors lacked the incentive to invest in Vietnam because it was a high-risk economy and obtaining approval from local government was a laborious process (FA1, 2017). The regulatory challenges faced and restrictions imposed on foreign holdings of Vietnamese businesses meant that foreign investors struggled to generate consistent and attractive returns (Painter, 2005). Policy revisions and the introduction of the FDI law meant that there was an up-turn in foreign investor sentiment. Investors took advantage of Vietnam's booming economy, as a more stable macroeconomic outlook led to increased investment appetite.

Evidently, revised laws on Foreign Direct Investment enticed investors to allocate funds to a wider array of sectors within the Vietnamese economy. Prior to the relaxation of such laws, US $ 1,603.5 million of registered capital was supporting 211 projects (Nguyen and Nguyen, 2007), resulting in businesses unable to obtain finance. After the Vietnamese economy had acclimatised to these new laws, capital inflows accelerated to reach US$ 18,379.1 million and supported 1,409 projects (World Bank, 2011). More funds reached broader sectors of the economy, allowing sectors that had previously seen lacklustre financing, such as services, to grow (see Figure 4). In particular, investment opportunities lay in areas in which Vietnam had competitive advantage, their export market exhibiting strong growth. Xuan and Xing's (2008) empirical analysis showed that a 1 percent rise in FDI typically leads to a 0.13 percent rise in Vietnam's exports to these countries. With their biggest assets being low labour costs and a deregulated environment, many businesses began relocating their investments into Vietnam:

> *For Vietnamese business it was new lease on life. Multiple investment channels meant multiple opportunities for growth. It really unlocked doors for many industries that previously required large amounts of capital to begin with. (BO4, 2017)*

In addition to funding general business, FDI helped Vietnam to exploit new industries that were previously too expensive – such as oil and gas as well as high-tech manufacturing (IMF, 2002). Where previously high start-up costs were barriers to entering these markets, FDI allowed Vietnam to explore new opportunities and leverage untapped resources. This was a point made by several of my interviewees, which corroborates the data taken from the Foreign Administration presented in Figure 4

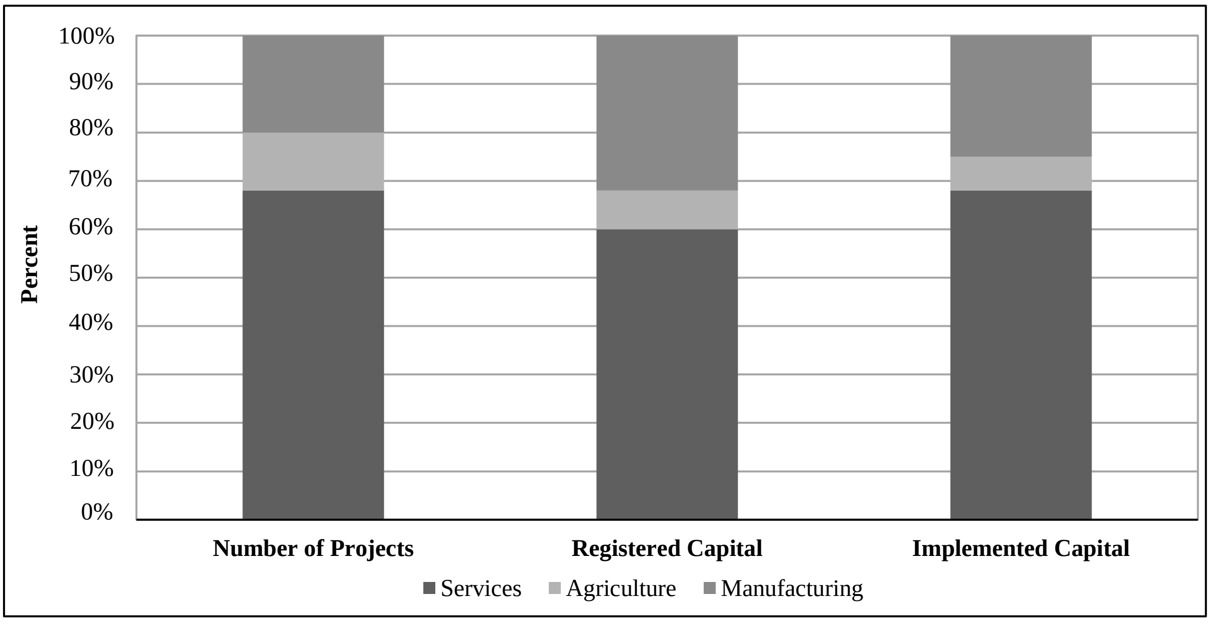

Figure 4: FDI by sector (1988-2006)
Source: Nguyen and Nguyen (2007)

below. During this period, large amounts of funds flowed towards Oil & Gas (27%), Hotel/Tourism (21.4%) and Agriculture (13.9%). The nature of capital allocation thus began to shift away from state control, as foreign investors sought the opportunity to capitalise on particular sectors ripe for growth.

However, Vietnamese SMEs still struggled to raise funds. While many of my respondents noted how *Decision No. 218/CT* & *Decision No. 53/ND* had facilitated the mobilisation of capital towards private sector business, there was still a "credit-gap". The effects of financial reforms took time to materialise and as a result, domestic credit to private sector did not begin rapidly growing until the end of the 20th Century (Leung, 2008). SOEs remained a major hindrance to effective financial development, as the majority of credit reached their business ventures (Figure 5), resulting in inefficient allocation of capital (Harrison and Bui, 2013). In short, despite policy reform, the State sector sustained a "crowding out" effect on private investment towards the end of the 1990s.

The crowding out effect had knock-on effects for the rest of the Vietnamese economy, as rising levels of non-performing loans sparked the need for caution. While the State initiated reforms tailored to address the burgeoning issue of a lack of financial development, businesses still faced difficulty in accessing funds (Leung, 2009). The State dictated the nature of capital allocation and consequently funnelled it to SOEs. As a response, the Vietnamese authorities made a more comprehensive effort to reform the financial services industry, diversifying investment channels and thus increase funds accessibility (Malesky and Taussig, 2008).

In a response to ineffective policy, the Vietnamese State revised *Decree 53* (1990), applying a more open-door policy towards investment and allowing private and foreign enterprise to enter the banking sector. New types of banks established presence in Vietnam. Joint Stock Commercial Banks (JSCBs), owned by private companies, individuals or governments. Joint Venture (JV) banks, owned by two or more parties, typically by government and private investors. And finally, Fully Foreign-Owned Commercial Banks (FOCBs), run by companies with headquarters abroad. Additionally, international banks such as HSBC, Standard and Chartered, and ANZ now provided banking services to the Vietnamese population, as previous regulations dictating their ability to conduct business in Vietnam were relaxed. Most pertinent to this project, was the ability for foreign banks to begin extending credit to businesses in Vietnam who were looking to grow and expand their business operations:

> *It took a while for foreign banks to make a noticeable change. Acclimatising to the Vietnam economy as well as bypassing regulation meant that there was a delay before firms could access capital through foreign-owned banks (FA3, 2017)*

The introduction of foreign bank branches offered an alternative for firms looking to access funds, promoting competitive capacity within the banking sector. Indeed, as figure 5 shows, since 2001, the overall proportion of investment radically changed. Where previously, ~70% of investment was dictated by the state sector, by 2012 ~65% of total investment was via the non-state and Foreign Invested Sector.

Ultimately, this posed a challenge to SOCBs, as foreign banks gained more market share and built on their provision of credit services (see Figure 6). Thus, new forms of capital investment were available to SMEs in Vietnam. Figure 6 displays the dwindling power of SOCBs in allocating credit to businesses in Vietnam, as their overall share highlights a strong downward trend of 12.2% per annum over the course of 6 years (HSBC, 2014). These changes, however, did not happen immediately, as there was a time lag before the effects began to materialise.

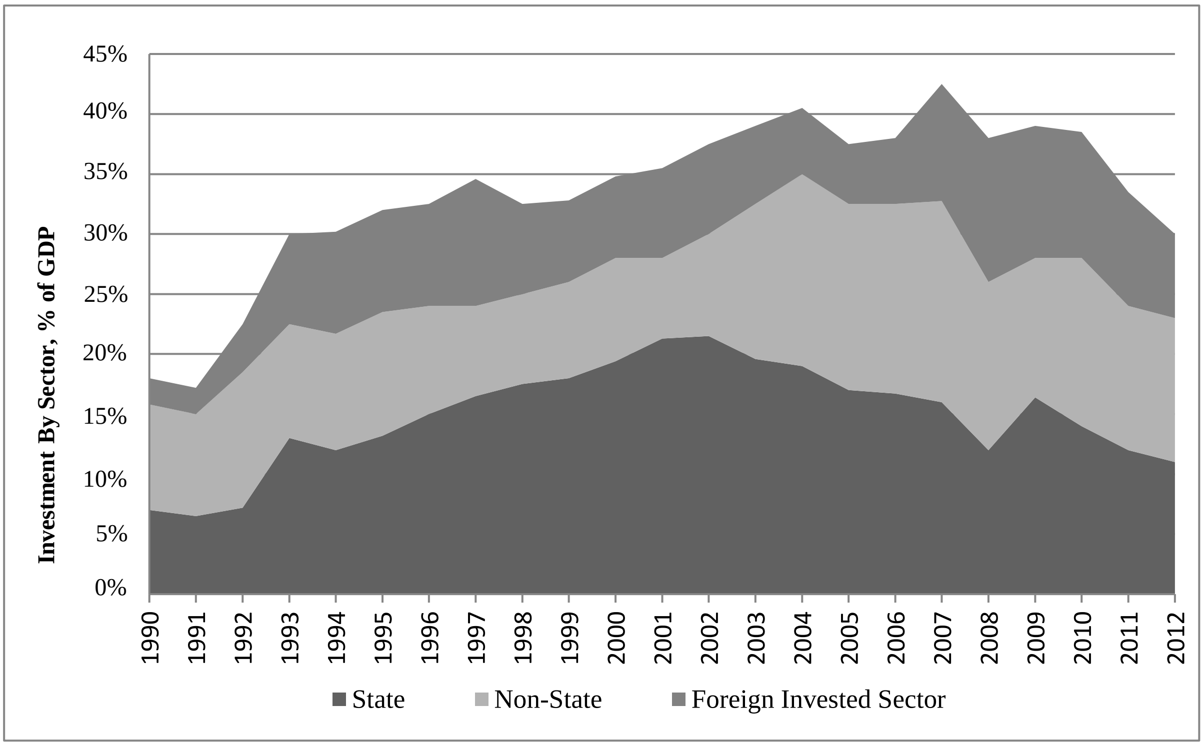

Figure 5: Investment Allocation by Sector (% of GDP) (1990-2012)
Source: HSBC (2014)

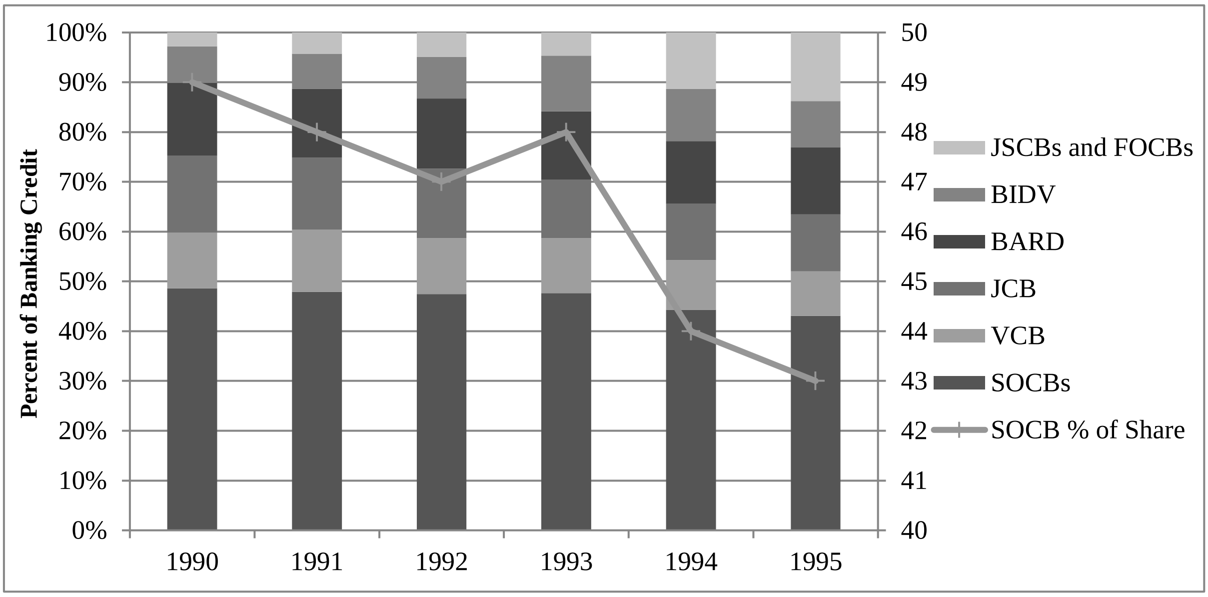

Figure 6: Breakdown of Credit Allocation by Banking Sector (1990-1995)
Source: State Bank of Vietnam (1999)

The initial introduction of foreign owned-banks in Vietnam had positive ramifications for Vietnamese businesses, by way of growth in liquidity, credit and deposits – as foreign banks had a desire to capitalise on Vietnam's rapidly expanding SME sector. For many of the business owners interviewed, foreign banks evolved to become the main source of finance, in some cases their only option. The first bank to establish operations in Vietnam was ANZ (1993), which subsequently prompted the influx of more foreign-owned banks to Vietnam. The majority of foreign banks focussed on the commercial corporate side of lending, funding FDI projects. Therefore, in the years to follow the rework on credit institutions, there was a shift in the nature of funding. Where previously some SMEs had struggled to access finance, accelerating levels credit growth (Figure 5) channelled specifically to the private sector and a wider provision of financial services (Figure 6) meant that more businesses could expand. Enhanced efficiency in capital investments across the economy marked the success of the decree revision, and therefore financial development.

Overall, the Doi Moi reforms marked the beginning of a radical re-engineering of the economy. The legitimisation and recognition of private enterprise was instrumental in developing new private enterprise. However, SMEs faced difficulty in achieving sustainable growth, as the economy still operated under the elements of central planning. SOEs were the biggest obstacles for private enterprise, as they enjoyed favourable terms of credit and a high degree of business sovereignty. Similarly, although the capital account had been liberalised and initial impacts were exciting, FDI was a younger form of finance that the Vietnamese economy was not familiar with using. Further reforms were required in order to aid the development of the market economy.

4.2 1995-1999: International Integration and the Market Economy

Following appointment to Prime Minister in 1991, Võ Văn Kiệt implemented extensive reforms centred around global integration. During this period, Vietnam's focus was on deepening economic integration with the Mekong region, as well as establishing diplomatic ties with the rest of the world (Herr, 2016). The government branded Vietnam as a *multicomponent economy under state management*, reaffirming the primacy of the State (Riedel, 1999). The most notable development during this transition was the establishment of full diplomatic and trade partnerships with the U.S., which meant that Vietnam attracted significantly more inward FDI and international trade increased substantially (Binh and Haughton, 2002; Riedel and Pham, 2010). This period marked the beginning of Vietnam's membership to the global community. The opportunity to work with internationally recognised and reputable organisations such as ASEAN meant that Vietnam was poised to take advantage of their growth potential. Phan Văn Khải, established as Prime Minister in 1997 furthered the work of Võ Văn Kiệt, but focussed more on reforming SOEs (Rama, 2008).

The signing of a Bilateral Trade Agreement (BTA) with America in 2000 was symbolic of this new global outlook and an increasingly open-door trade policy. The BTA displays Vietnam's movement towards current account liberalisation and underscores the importance of removing overbearing restrictions, as the benefits of increased trade have translated to GDP/capita growth. Efforts to deregulate included a reduction of tariffs on U.S. exports by 25-50%, the provision of intellectual property rights and allowance of market access for services (Binh and Haughton, 2002). Figure 7 shows how since the implementation of the BTA, GDP/capita growth and export growth to the US exhibited a positive correlation (Trading Economics, 2018; U.S. Census Bureau, 2018). Many of my respondents spoke about the importance of USA as a market. For example, one business owner noted that

> *The majority of my original customers came from America – and they still are. It is a huge market in general, the world's biggest consumer. Without a trade agreement with America we would have to find new customers or find new jobs (BO4, 2017)*

Ranked as the number one consumer of Vietnamese products, the US accounts for 21% of Vietnam's export market, contributing to over $38.1bn of Vietnam's total GDP (OED, 2015). Overall, liberalising restrictions on the Vietnamese current account, exemplified by the US-Vietnam BTA, has had positive effects for economic growth. This has been particularly important in Vietnam, as the the role of trade negotiations has risen to reaffirm Vietnam's status as an *export-led* economy. Firms that export goods and services with a high exposure to US consumption have been the major beneficiaries of a more open attitude towards global integration (BO4, 2017).

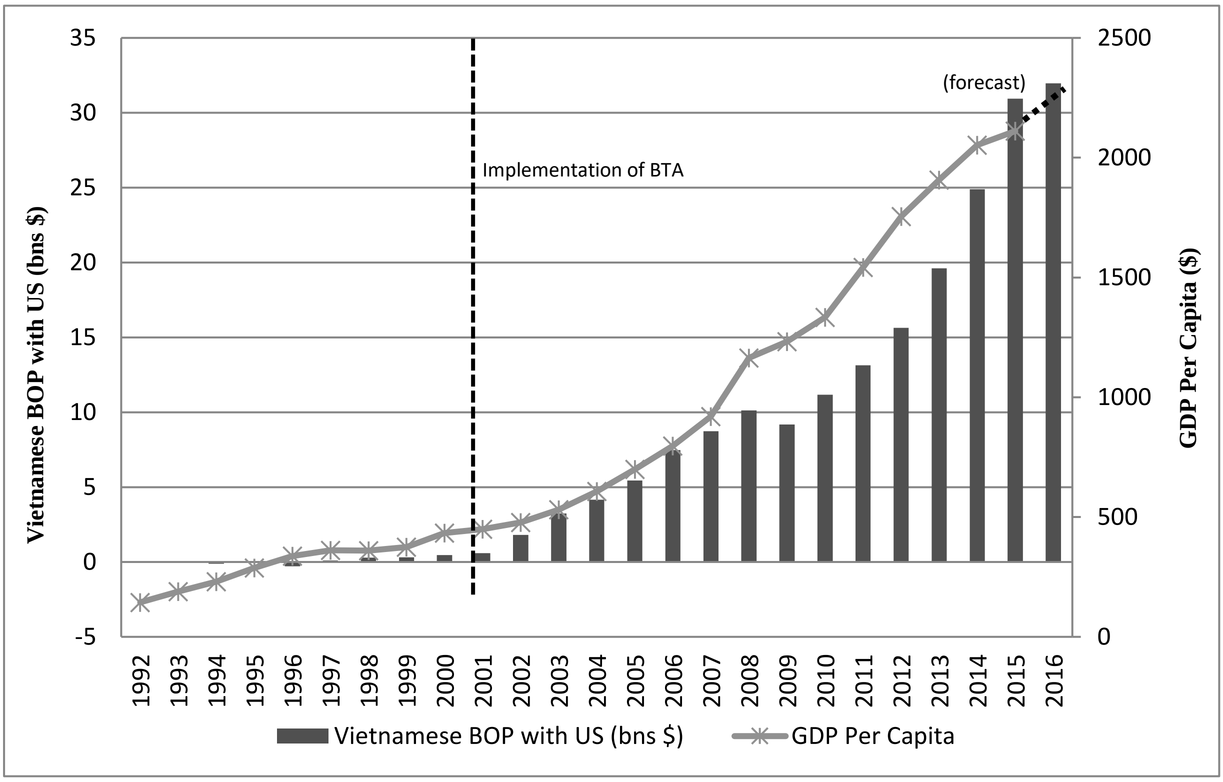

Figure 7: Vietnamese GDP/Capita and BoP Growth with US
Source: Trading Economics (2017), U.S. Census Bureau (2017)

Additionally, in 1995, Vietnam gained membership to the Associate of Southeast Asian Nations (ASEAN), which is a regional group promoting economic and political cooperation among its members. Integration into the ASEAN involved embracing free movement of goods and services as well as encouraging more FDI into the country (FA2, 2017). The main benefit from Vietnam's participation is that it enjoys regular contact with some of the leading global and regional powers, diversifying and strengthening their client-base through extra cooperative schemes and organisations (Binh and Houghton, 2002; Tung, 2007). This new accession, combined with the downfall of the Soviet bloc meant that Vietnam had the prospect of new, affluent trade partners through the ASEAN Free Trade Area (AFTA). Figure 8 and 8a display the relative GDP/Capita for each ASEAN member in 1993, graphically representing Vietnam's wealth compared to others. Where Vietnam's economic development lagged behind its ASEAN counterparts, new membership created new export opportunities. Geographic proximity allows for cheaper shipping costs and ease of trade, which currently contributes to over 9% of their exports and attributes to a significant amount of Vietnamese GDP growth (World Bank, 2017). Optimistic ASEAN emerging market growth coupled with the development of the middle-class consumer means that favourable terms of trade will continue to be an asset to the Vietnamese economy in the near future (TT1, 2017). Overall, the integration of 400million people in the ASEAN market created the opportunity for Vietnam to extend into untapped markets as well as attract long-term investment.

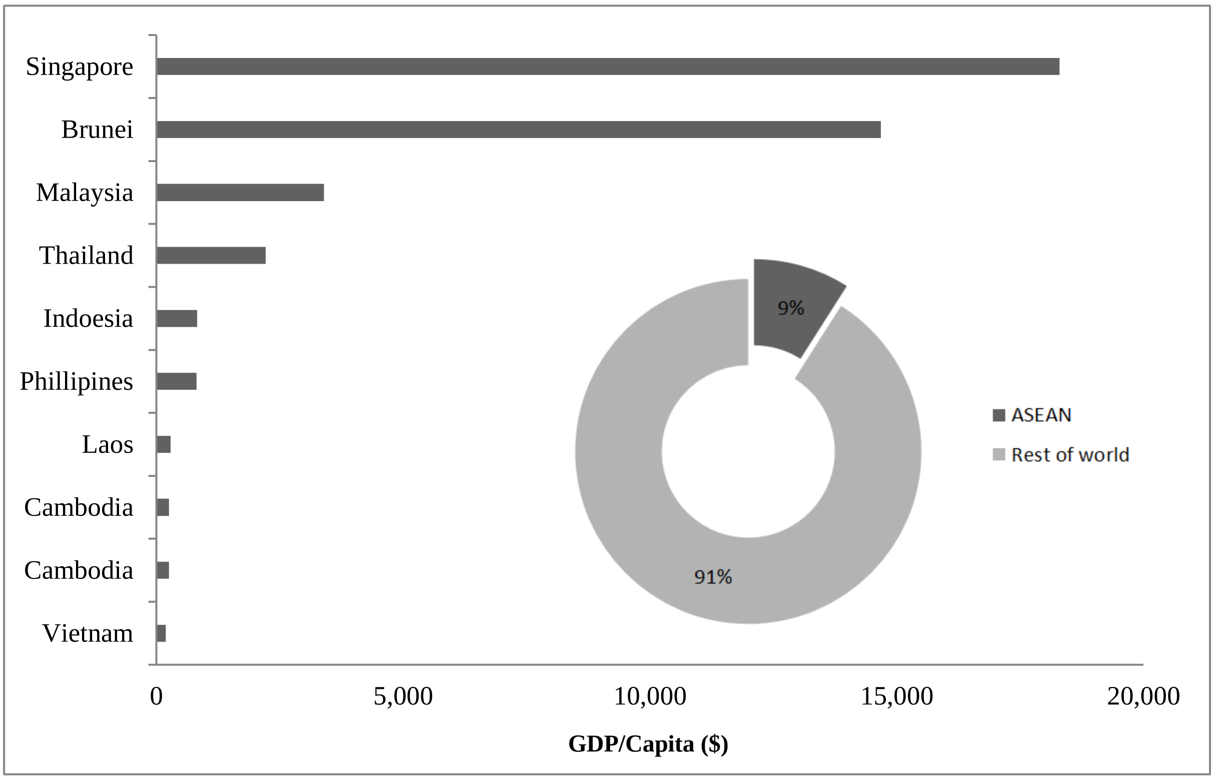

Figure 8: GDP/Capita ASEAN Countries (1993)
Source: World Bank 2017

Figure 8a: Proportion of Importing ASEAN clients (Vietnam, 2015)
Source: **http://atlas.media.mit.edu/en/profile/country/vnm/**e : World Bank (2017)

According to several interviewees, Formulating cohesive and collaborative relationships among multiple nations as well as with globally recognised bodies was additionally beneficial for Vietnam, as it instilled confidence among investors looking to allocate funds in Vietnam:

> *The benefit of ASEAN is that it means that we have consumers and we attract more investment. Vietnam is perceived as less risky and more stable because it is a bit of a secured income. The whole idea of "stronger together", whether it be economics or defence, really comes into fruition here. (BO1, 2017)*

> *When we [Investment Company] were setting up operations, that fact that Vietnam were part of ASEAN was good for investment. Having the backing of some powerful nations was reassuring and people trusted in Vietnam. (FA2, 2017)*

By complying with ASEAN rules and regulations, members cultivate greater trust among potential trading partners and investors. The agreement provides a level of security for investors, meaning they can more confidently allocate their investments to areas that need it most. Although FDI was flowing into Vietnam before 1995, more favourable terms of trade with US and diplomatic ties with the wider global economy meant that investment commitments reached their peak in 1996 (Figure 9).

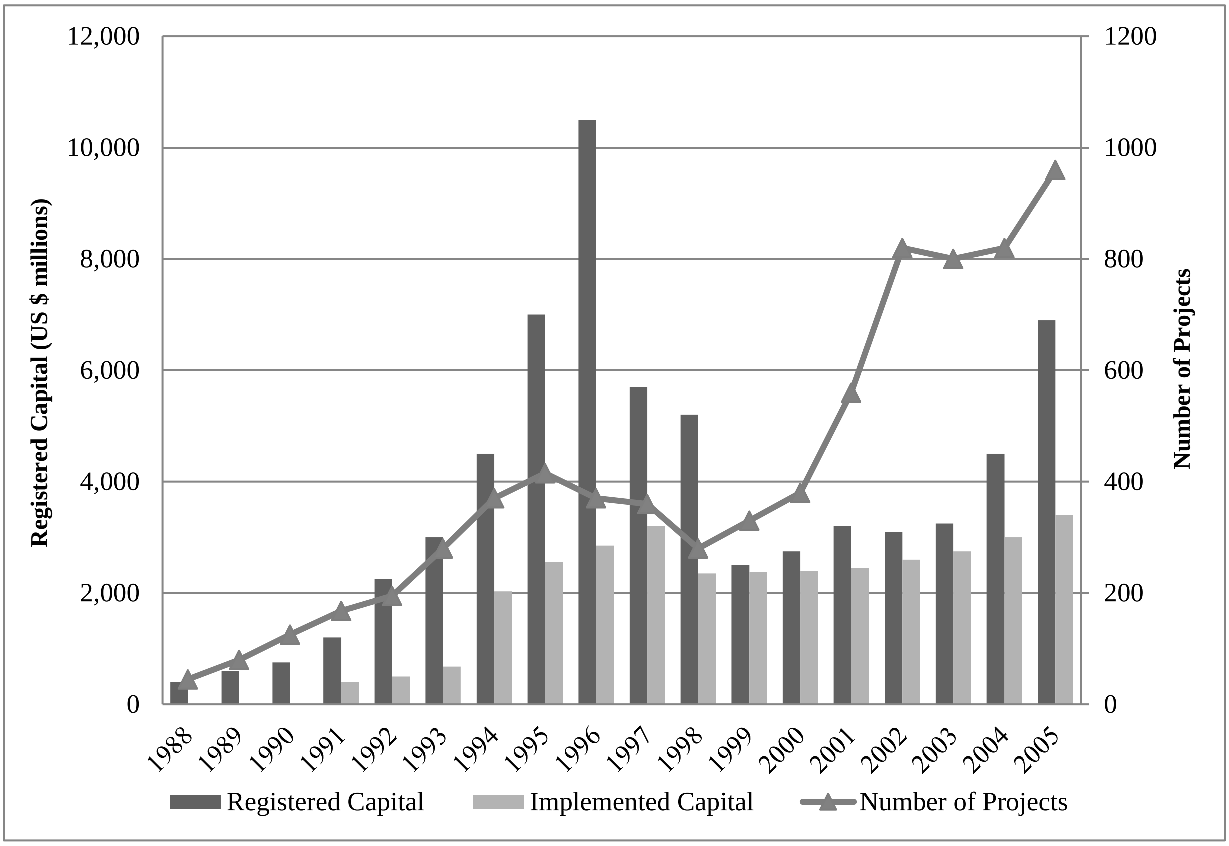

Figure 9: FDI Inflows & Number of FDI Projects (1988-2005)
Source: Doanh (2002)

FDI was integral to developing the market economy, as it offered wider opportunities for accessing funding, therefore correcting inefficiencies of state-capital allocation. Hoping to capitalise on the rapidly growing economy, the US committed over US$10billion of FDI in 1996, which had reverberating effects for employment, consumption, innovation and export growth:

> *Before the Financial Crisis, FDI was the hype. Because of a newfound friendship with the US, considerable amounts of cash entered the circular flow of the economy. The number of investment projects boomed at this point, as Vietnam became more attractive. We were getting more investment than most of our neighbours. (TT1, 2017)*

As a corollary, Vietnam's GDP grew at record levels of 9.5% in 1995 and 9.3% in 1996 (Doanh, 2002). Overall, integrating deeper and forming enhanced relationship with the rest of the world, most notably the U.S., spurred the development of the market economy, as funds reached the most productive areas. The implications of accession to ASEAN can be broadly characterised in Table 3 below.

Characteristic of ASEAN	Implication for Vietnam
A single market and production base	• Removal of trade tariffs mean that prices for goods and services will be more competitive, allowing for a greater opportunity within the exporting market. • Bolsters the regional market, which benefits Vietnam, and attracts more investors to allocate funds due to attractive development rates.
Political-Security	• A robust political-security environment for Vietnam will neutralise fears for investors and change the country's risk perception. Increase in FDI under the impression of stability.
A region fully integrated into the global economy	• Increasingly globalised outlook and greater bargaining power (as more countries means more economic weight) will give Vietnam access to a bigger market.
Revised Single Market (for 2020)	• Financial services and capital account liberalisation, capital market development and currency cooperation will enhance the ability for Vietnam to benefit from FDI. • Allows multiple economic bodies to congregate into one market and therefore diversify risk. Becomes increasingly attractive to foreign investors looking to allocate funds in Vietnam.

Table 3: Summary of selected ASEAN criteria and the impacts they have on Vietnam

Vietnam's commitment to financial development, through liberating their current and capital accounts had significant implications for the economy. Firstly, additional investment streams meant that firms previously suffering from a funding deficit received finance. Investors specifically chose companies to invest in that were productive and those that would generate returns – connecting savers with entrepreneurs. Secondly, membership of internationally recognised bodies meant that firms were required to meet accountancy and disclosure standards. Greater information available on the market therefore meant that prices were accurate and thus the economy allocated funds more efficiently. Finally, Vietnamese firms were able to learn more effective business strategies from firms also in the ASEAN.

Having said that, the AFC exposed a weakness in the process of stock market integration, as investors rapidly withdrew their investments and Vietnamese businesses suffered as an expense. Radelet and Sachs' paper (1998) emphasise the role of financial panic among international investors in the AFC., drawing attention to how "small effects can have large consequences" (54). That is, arguing that the rapid removal of capital exacerbated the AFC. In the absence strong financial institutions, legal foundations and anti-corruption measures, Vietnam was more vulnerable to the crisis than it should have been. Ultimately, while FDI offered a promising means of accessing funds for economic development, in also exposed the country to acute economic risks that were realised during the crisis.

While considerable efforts were made to integrate into the global economy, pro-capitalist commentators were critical of the commercialisation process so far, arguing that it had proven slow and ineffective, reflecting incoherent development policies. Figure 10 provides a representation of the declining

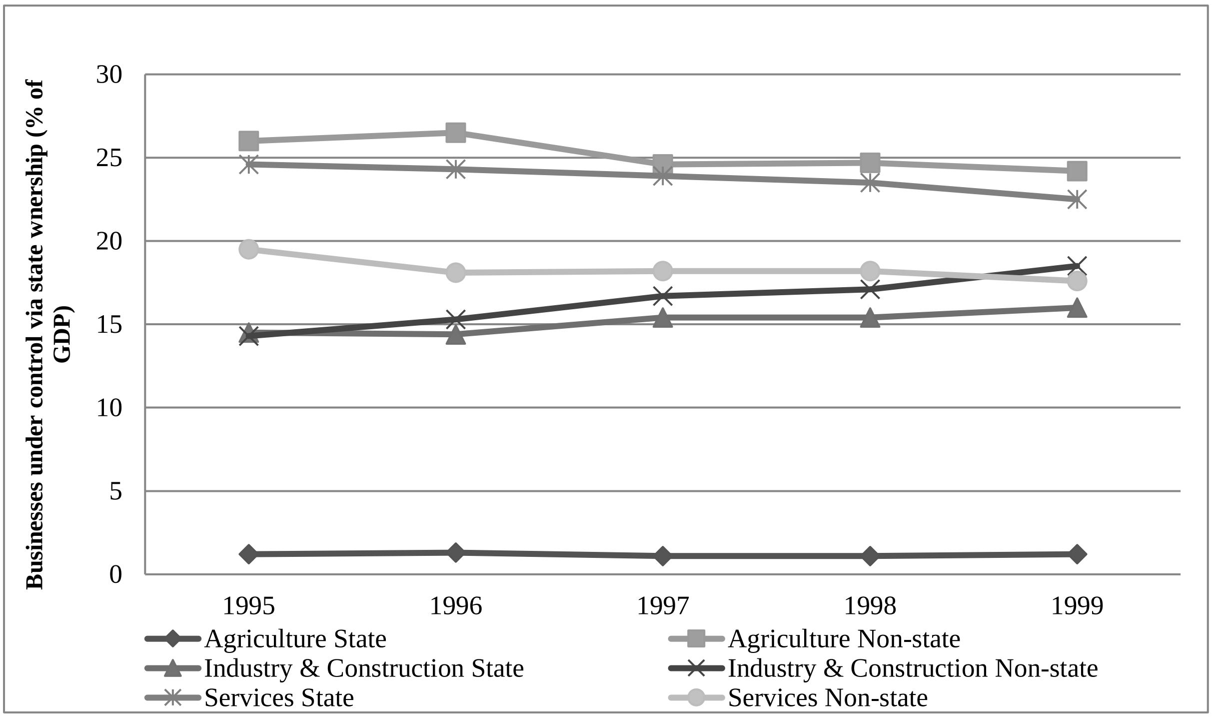

Figure 10: Sectoral Change in Ownership for 3 Core Sectors of the Economy (1995-1999)
Source: GSO (2017)

ownership of SOEs, by analysing how ownership of specific sectors has transferred to non-state agents. Over a four-year period, the State achieved marginal differences in restructuring business ownership, even though privatisation was a cornerstone policy for financial development. Empirically, the GDP by sector and ownership for state enterprises reduced by 0.84%, while for non-state enterprises it increased by 1.49% (Painter, 2005). Initial reform targets proved ambitious, yet flawed. By the end of 1997, only 15 SOEs became joint stock companies.

In order to rectify the slow progress made to date, the government initiated Decree 28 in 1996, which extended the previous programme and broadened SOE renovation to include all SMEs that were not in strategic sectors (TT2, 2017). This included the devolution of powers to local provinces and municipalities. Political institutions in geographical proximity to SOEs would have a greater understanding of which ones were inefficient and therefore warranted equitisation or reform, in theory speeding up the process. Yet, the output of these efforts was limited. Across 1996-1998, only 25 additional SOEs equitized (Painter, 2005).

In response to further criticism, the Vietnamese State introduced a strict 4-year plan (1998-2001) geared towards accelerating equitisation of SOEs and levelling the playing field between private enterprise and state enterprise. Additionally, the National Enterprise Restructuring Committee (NERC) was established in order to aid the process. The main efforts summarised below in Table 4:

Measure	**Action**
Stricter Financial Discipline	• Restrain credit growth • Monitor highly leveraged SOEs
Increase Transparency and Disclosure	• Report systematic data and financial reporting • Externally audited accounts • Ministry of Finance management of information
Facilitate Equitisation	• Remove shareholder caps • Encourage SOE IPOs

Table 4: Summary of the 4- Year Reform Programme

Alongside the general policy reforms, the State adopted *Decree 44* which provided a legal framework through which equitisation could operate in. First, the State made equitisation compulsory – where previously SOEs chose between the option to participate or not. Second, SOEs were categorised into three groups, dependent on their level of "importance" and equitised accordingly. The State would retain a higher proportion of shares for SOEs considered *essential* to the functioning of the economy, those of "public interest". SOE reform policy (1995-1999) marked a turning point for Vietnam's economy, as numbers of successful equitisations surged to a total of 845 during 1998-2002 (Figure 11). The NERC documented that the majority of reform be focussed on the garments, marine products and textiles sectors, as forecasts predicted these to be areas for export and employment growth as well as having strong potential for attracting foreign-direct investment (FA5, 2017).

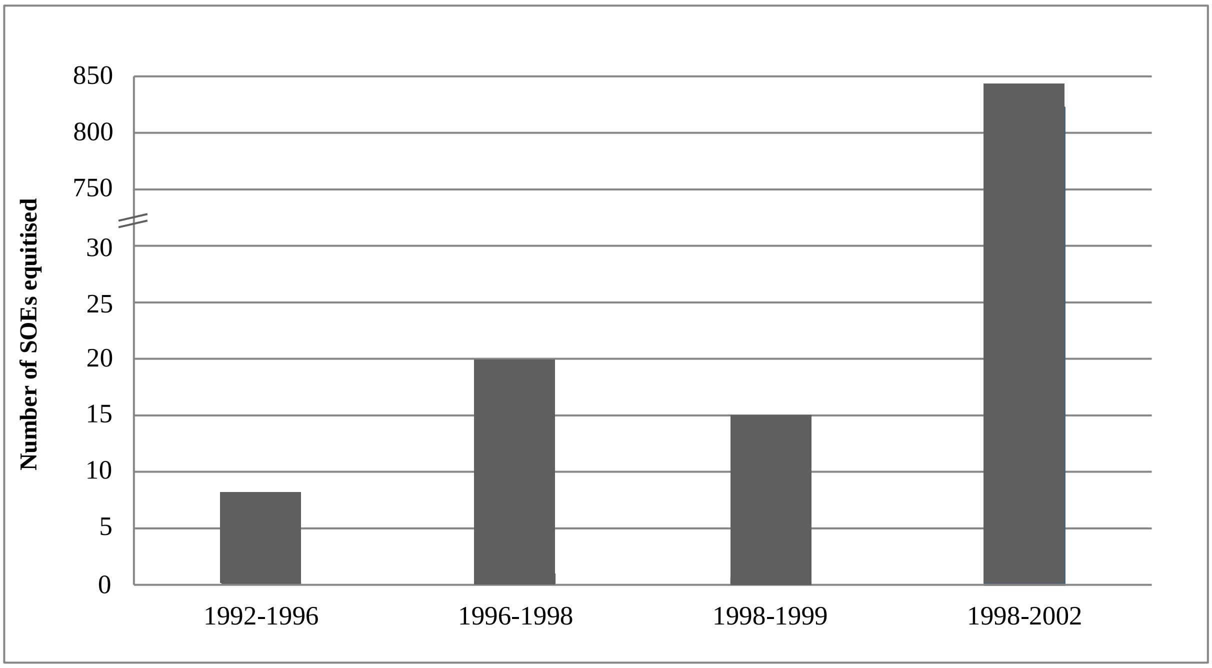

Figure 11: Number of SOEs equitised (1992-2002)
Source: Painter (2005); World Bank (2006)

4.3 2000-2007: Development of Capital Markets and Increased Globalisation

A second stage of financial development (Doi Moi 2) began around the turn of the millennium, with efforts to restructure investment regimes and develop capital markets, integrate deeper with the world economy and continue SOE renovation. Specifically, Prime Minister Phan Van Khai (1997-2006) made a number of commitments to continue boosting economic prosperity through the Enterprise Law (2000), the establishment of the Stock Exchanges (2000 & 2005), and Vietnam's accession into the WTO (2007). These policies spurred growth, as Vietnam's GDP grew from 33.64billion USD to 63.37billion USD, marking an 88% increase during 2000-2007 (World Bank, 2011).

Through a critical review of the implementation of Socio-economic Development Strategy for the period of 2001-2010, Vietnam decided to continue promoting industrialization (Beresford, 2008). In 2005, revisions to the Enterprise Law replaced previous regulations specific to private enterprises, applying them universally to all forms of ownership with the view of levelling the playing field. The Enterprise Law, originally created in 2000, encouraged foreign investors to allocate more funds in Vietnam through improving the legal framework surrounding investment and corporate governance – generating higher levels of investment activity from foreign businesses. The Enterprise Law makes the process of starting operations in Vietnam more efficient, as it enables businesses to register in Vietnam before gaining acceptance from the government (Nguyen and Ramachandran, 2006). In order to compliment these revisions, additional administrative units supported investment registration for projects of any size, industry and sector:

> *The Enterprise Law was a huge step towards positive deregulation for Vietnam; it just made investing in Vietnam easier. It created jobs, investment opportunities and contributed to overall economic growth as more businesses kick-started operations in Vietnam. (TT1, 2017)*

Where previously firms existed but were not registered, the new system allowed companies to bypass government approval. As a result, entrepreneurial activity – characterised by private firm registration – doubled in volume in 1999 when compared to previous years (Brown, 2002). Easier and more attractive regulatory structures were well-received among business owners who have benefitted from a more liberalised economy (World Bank, 2016). Empirically, the number of joint stock companies developed rapidly, as by November 2008, 270,000 of them had registered (Riedel, 1997). Overall, the Enterprise Law solved a number of underlying issues facing the Vietnamese economy. Financial development fostered a more entrepreneurial environment, levelling the playing field between SOEs and private enterprise, as well as connecting deeper with the global economy.

However, the early 2000s also saw the reappearance of high levels of non-performing loans, corruption and over-leveraged companies defaulting, leaving banks reluctant to lend (Brown, 2002). Businesses, therefore, experienced a funding shortage, restricting their capability to invest in new business ventures

– economic growth suffered. In order to counter-act the emergence of bad debt, the State issued a number of responses to support SOCBs (summarised in Table 5).

Year	Measure	Purpose
2001	Development Assistance Fund	• Channelling funds to a "superbank", named the Development Assistance Fund • Allocate capital across the economy to areas in deficit, ensuring that due diligence is done and debtors are creditworthy
2001	SBC Decision 1627-QD-NHVN	• Categorise debts by category: doubtful and bad • Allow for more effective management of NPLs and facilitation of how to address said issue
2002	SBV Decision 171-2000-QD-NHNN	• Regulatory framework overseeing the conduct of the SBV Risk Reserve • Risk level established at 10% of SBV's revenue, in order to avoid a credit crunch and offset losses occurring from NPLs.
2004	SOCB Aid	• Recapitalising SOCBs through rerouting doubtful debts to the Debt and Asset Trading Company (DATC). • Write off of uncollectable debt for SOCBs

Table 5: Targets and Intentions of the Vietnamese States' Efforts to Reduce NPLs

The effects of such policies were, however, negligible. Issues lay with ideology, corruption and inefficient SOEs and SOCBs, rather than with the banking sector as a whole (Painter, 2003). By the end of 2003, SOCBs accounted for VND 35 trillion (USD 2.235 billion) of uncollectable debt (Hoang, 2004). Piling levels of bad loans were the result of "connections lending" (Malesky and Taussig, 2008) – where SOCBs' personal ties with SOEs result in 'directed loans' flowing to their business ventures, despite their inefficiencies. Rather than addressing the result of the problem through bailing out SOCBs, the Vietnamese State needed to address the cause of the problem. This meant central reform over SOCBs and SOEs, with the view of ensuring that credit did not flow to inefficient ventures (U1, 2017). Indeed, the government's intention to hand over commercial lending powers to the free-market was to achieve greater efficiency when allocating scarce credit.

Prior to reform, funds were not being allocated upon the principles of efficiency as SOCBs enjoyed great advantages that restricted private commercial banks from competing, including:

- Size and scale (branches set up in abundance all over the country)
- Direct funds to raise equity
- Financial support in the event of poor performance
- Reputation of state-backed support
- Economies of scale to help lower the cost of funding

In order to correct this problem, the State implemented a reform programme in 2001 to strengthen the banking system and enable funds to flow to the most commercially viable activities. Firstly, the focus was to improve the regulatory framework – ensuring that both clients and banks adhere to a transparent code of conduct (Ho and Baxter, 2011). This included conducting due diligence on loan applicants, ensuring their project is viable and likely to generate returns. The goal of this was to ensure that business is financed due to it being an attractive entrepreneurial opportunity, rather than due to nepotism. Secondly, the State attempted to level the playing field between SOCBs and JSCBs (Leung, 2009). This meant that privately owned banks, or foreign owned banks, were able to leverage their efficiency as well as technical knowhow in a less restrictive marketplace (FA3, 2017). Additionally, the banking sector was encouraged to enhance the provision of credit services. More capital flowed to areas of higher productivity and therefore improved allocative efficiency. Finally, SOCBs underwent commercial restructuring (Ho and Baxter, 2011). The government introduced performance-based targets in order to incentivise profits, as well as address the burden of NPLs.

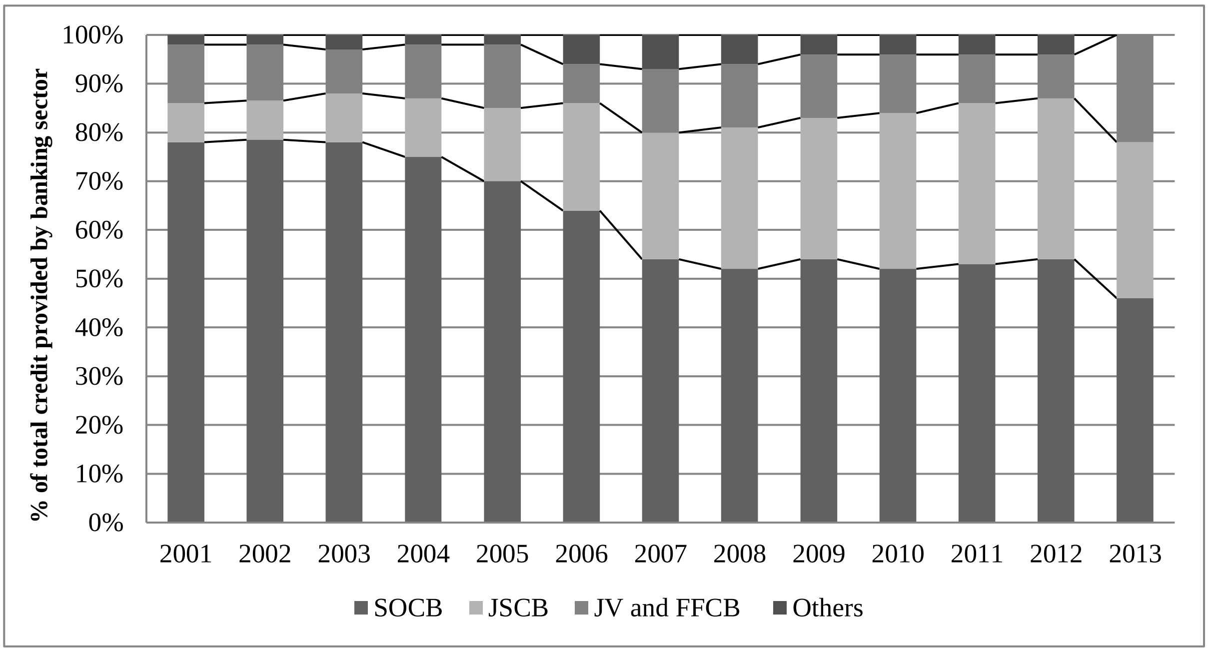

Figure 12: Change in Credit Allocation from Banking Sector (% of total)
Source: Tran, Ong and Weldon (2015)

The banking sector showed marked improvements, as by the end of 2007, the proportion of credit allocated to the economy from the State sector had reduced by 24% (see Figure 12) while foreign banks' share increased, accounting for 12% of the economy's lending portfolio. The benefits of enhanced provision of banking services was widely felt among my participants who expressed that broader access to finance was integral to business success.

Although underplayed in the literature, relaxed restrictions on foreign banks and a more competitive landscape allowed for the introduction of more advanced banking products, which facilitated business growth. Most commonly used among business-owners interviewed were trade finance products – which are short-term products that allow companies to mitigate risk and maintain a healthy cash flow when conducting trade (BO4, 2017). Interviewees spoke to the importance of trade finance, explaining how it had become a crucial part of obtaining new customers, as well as for expanding on relationships with existing clients. For example, one interviewee explained that:

> *There have been occasions where we have wanted to invest in a new product line, but because of delays in payment from international trades, we have missed the opportunity… This form of financing allows us to be constantly expanding and growing the business. Day to day we make use of amounts from 20k up to 400k, so it is a big part of our business. (BO3, 2017)*

Fisman and Love (2003) empirically document the importance of "inter-firm financing", showing a positive relationship between countries who frequently use trade credit services and growth. This holds particularly true for geographies with weak financial institutions – such as Vietnam. Klapper (2006) builds on this, explaining that firms in developed countries will only conduct business in countries with a low credit rating if they are able to assure that the quality of goods is to the required standard. Where previously weak contract enforcements or weak legal structures surrounding debt-collection prevented business growth, trade credit offered companies looking to work with SMEs in Vietnam an insurance policy at a relatively low cost (BO4, 2017). The introduction of more technical products, because of foreign bank presence, allows countries such as Vietnam to conduct more trade (Auboin and DiCaprio, 2017). Overall, trade finance facilitates Vietnamese exporters to further business activities and develop a stronger client base.

In sum, the development of financial services through the introduction of foreign banks over this period meant that businesses had a wider choice in credit suppliers and a wider choice in credit product, meaning more companies can raise the required funds for expansion. However, access to finance was still not as widespread as it needed to be. In order to correct this, the State made a commitment to developing the capital markets. The next step, therefore, was for the State to explore capital market development.

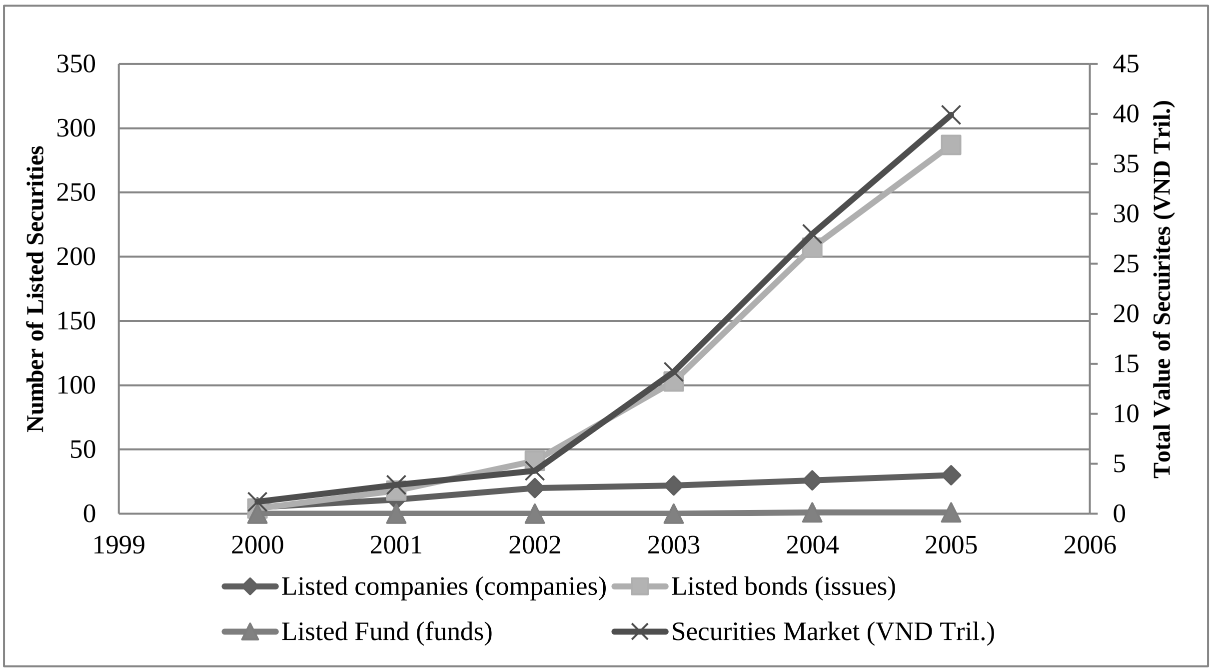

Figure 13: Capital Market Growth in Vietnam
Source: Trading Economics (2017)

The Vietnamese capital market made considerable progress during 2000-2007, as debt and equity markets have become two primary channels for capitalisation (FA2, 2017). In order to alleviate bank-based financing problems and a lack of credit facilities, the Vietnamese State made considerable efforts to construct capital markets in the early 2000s. The inauguration of the Ho Chi Minh and Hanoi Stock Exchanges are symbolic of contemporary capitalism and represent a commitment to the development agenda for the rest of the country.

The Ho Chi Minh and Hanoi Stock Exchanges opened in 2000 and 2005 respectively, with the hope of correcting underlying inefficiencies of funding misallocation (Nguyen and Ramachandran, 2006). The securities market, characterised by stock, bonds and investment funds, grew rapidly between 2000 and 2006 (see Figure 13). Increased money supply (M2), which rose approximately 25% year on year during 2000-2007, has translated to higher income/output/spending in the economy, attesting to annual growth rates of 7% (Trading Economics, 2017). Development of the capital markets changed the nature of funding allocation, as productive enterprises were able to undertake business expansion and longer-term projects that previously unfeasible through traditional funding channels in an exchange for equity:

> *Previously you had personal financing, which would only get you so far. Then you had banks, which were biased to SOEs. Not to mention their extraordinary amount of NPLs held them back from lending credit to potentially good business. Then you had the introduction of the capital markets…they need work but it is definitely an interesting time for Vietnam (TT1, 2017)*

Diversified investment streams meant that increased amounts of funding was beginning to flow to areas that needed it the most. Individuals in Vietnam were able to invest their savings in the securities market, yielding capital appreciation and dividend payments. At the same time, companies were able to unlock new sources of liquidity required for expansion. Given the nature of the stock market, investors also engaged in riskier investments – which previously bank-based financing would have ignored. Vietnam expanded the role of the markets in the economy in order to answer a credit gap within the economy. Productive business ventures that previously struggled to raise funds now received an influx of investment.

Following the turbulence of the AFC of 1997-98, the Vietnamese State focussed on accelerating financial development – establishing a comprehensive regulatory framework in order to develop and sophisticate their financial systems (Brown, 2002). The highly speculative nature of the stock market exacerbated the problems of the 1997 crash, as investors increased their exposure to Vietnam among optimistic business sentiment. However, the issue was that transparency and disclosure were underdeveloped and therefore investments were misinformed. According to the World Bank (2004), the reform agenda included the a number of facets:

- Closer supervision and tighter discipline of banks
- Greater transparency in financial transactions
- Promoting competitive behaviour
- Enactment of bankruptcy laws and stronger commercial codes
- Strengthening of the rule of law.

As a corollary, the State established a number of regulatory bodies and laws in order to oversee the capital markets (U1, 2017). Cornerstone initiatives have included the Securities Law in January 2007, a revisiting of the Investment Law 2005 and the Enterprises Law 2005 – creating a theoretical regulatory structure for the conduct of the capital markets (Hoang, 2004). The Ministry of Finance is the body responsible for ensuring that the stock exchanges, the companies and the investment funds meet the necessary regulatory requirements. This commitment to regulations reflects a collective realisation within Vietnam, that is, weak transparency has been a hindrance to economic growth (TT1, 2017). Lower transparency correlates strongly with higher levels of corruption, which translates to a combination of higher costs of business and investor scepticism over a high-risk jurisdiction (World Bank, 2014). In addition, inaccurate price signals lead to inefficient allocation of resources. Achieving an attractive risk-return profile in Vietnam, therefore, became challenging and market participants were reluctant to invest (TT3, 2017). Indeed, for the World Bank, improving transparency through regulation is the "low-hanging fruit of transition that has yet to be harvested" (2011: 79). For Vietnam, the critical barrier to obtaining confidence from international investors is that basic levels of accounting and auditing standards remain underdeveloped:

> *All this discussion is based on the institutions of accounting, valuation and auditing. Checks, balances and independents. But here, it is just a bunch of lies. People have different books, different reports to do whatever you need to do, whatever you need to do to legitimise your taxes. (TT1, 2017)*

Overall, reforms and developments made to the financial systems of Vietnam had positive effects for the economy – most notably the private sector, as funds were directed to supporting their business ventures (Anwar and Leung, 2011). Figure 14 and Figure 15 below, alongside Table 6, display how the nature of capital allocation has changed in Vietnam across 2001, indicating a positive impact of growth in investment. Across the period, there has been a role reversal between the public sector and state sector. Where in 2001, the State provided 60 percent of the investment to the economy, capital allocation had titled. By 2006, the foreign and private sectors contributed to nearly 55% of investment.

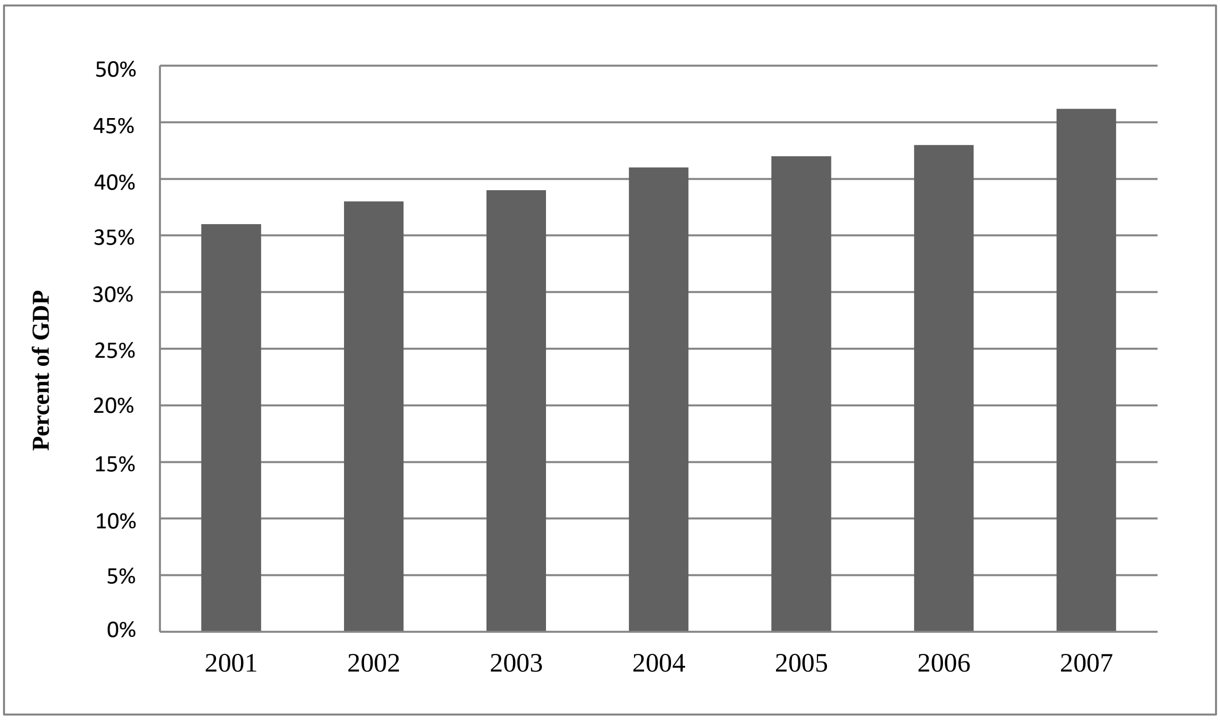

Figure 14: Growth in Investment as a Proportion of GDP (2001-2007)
Source: GSO (2017)

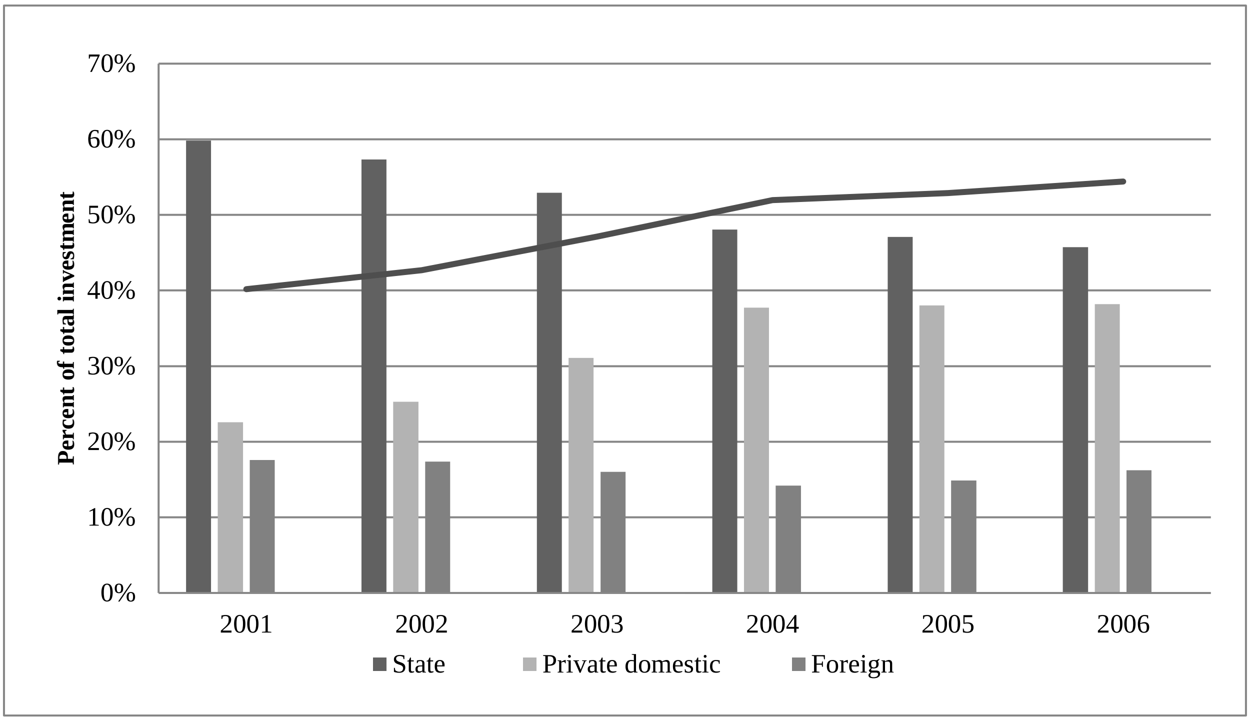

Figure 15: Share of Investment Contributed to Economy by Sector (2001-2006)
Source: GSO (2017)

	2000	2001	2002	2003	2004	2005
Banking						
Credit to the Economy (VND tril.)	159	189	231	291	420	
Credit to the Economy (Growth rate)		21%	22%	28%	42%	
Credit to the Economy (% of GDP)	35%	41%	44%	50%	59%	
Claims on SOEs (% of total credit)	45%	42%	39%	36%	34%	
Claims on SOES (% of GDP)	16%	17%	17%	18%	20%	
Securities						
Stocks						
Listed companies (companies)	5	11	20	22	26	30
Market Cap (VND tril.)				2.3	3.8	5.9
Market Cap (% of GDP)						
Bonds						
Listed bonds (issues)	4	18	41	103	207	287
Listing value (par value) (VND tril.)	1.2	2.9	4.3	11.9	23.9	33.7
Listing value (par value) % of GDP.)	0.30%	0.60%	0.80%	2.00%	3.40%	
Investment Fund						
Listed Fund (funds)	0	0	0	0	1	1
Listing value (par value) (VND tril.)	0	0	0	0	0.3	0.3
Listing value (% of GDP)	0.00%	0.00%	0.00%	0.00%	0.10%	

Table 6: Growth of the Financial Sector's Share in Capital Allocation (2000-2005)
Source: World Bank (2006)

In March 2001, the Ninth Party Congress announced a five-year reform plan, with the view of achieving an equilibrium between State and business goals. Specifically, to boost the presence of SOEs in strategic areas of the economy whilst equitizing those that were not key sectors for the State[31]. Strategic SOEs were to become integral to the future of Vietnam's economic development. Alongside this proposal to enhance the role of the State in business, modes of restructuring strengthened. The State's plan to equitise non-strategic sectors was ambitious. Specifically, the government hoped to reform 1,800 out of 5,571 SOEs within 3 years – considerably more than achieved in previous years. Figure 16 shows the success of the State reform agenda, in both cutting down numbers of SOEs and stimulating private sector growth.

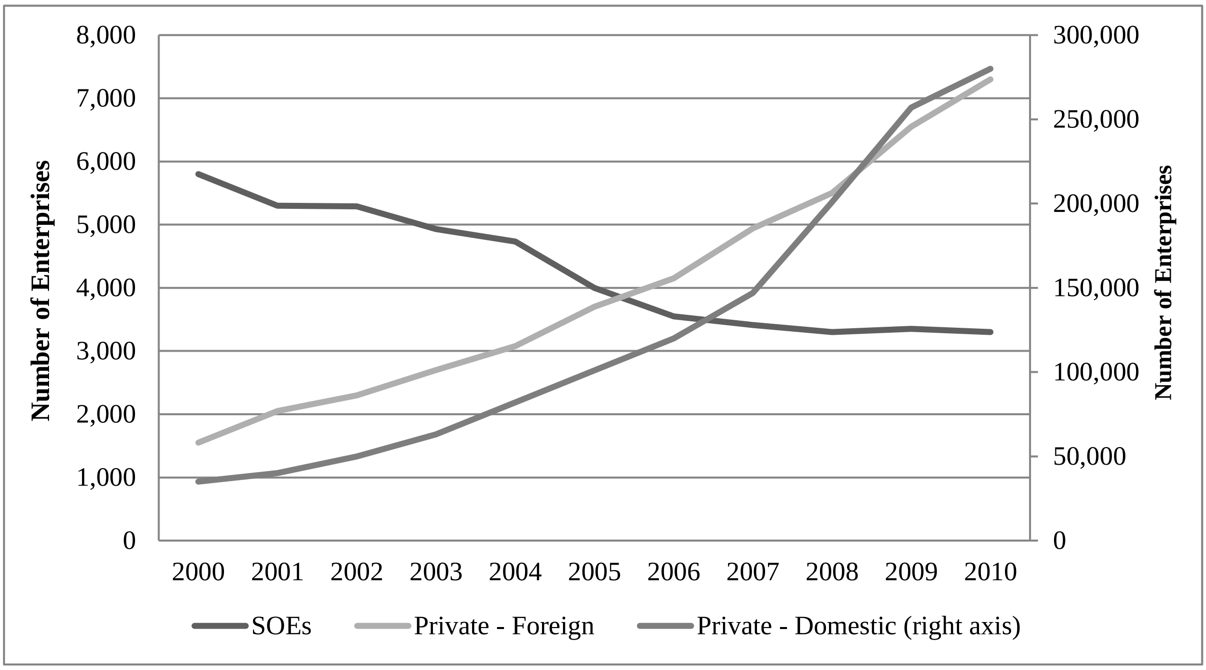

Figure 16: Declining Power of SOEs and the Rise of Private Enterprise (2000-2010)
Source: GSO (2017)

[31] "[P]roviding necessary public- utility goods and services for the demand of national defence and security, being the key force in boosting economic growth, and providing ground for the industrialization and modernization of the country with the socialist orientation" (Ninth Party Congress, 2001 quoted in Painter, 2003: 6).

4.4 2007-Present: Modernisation of the Financial Economy

After having enjoyed nearly two decades of real growth[32] and rapid development of the private sector, 2007 marked the beginning of a slowdown in the Vietnamese economy. With a lack of credit being the main barrier to private sector development, the State committed to developing the financial services in Vietnam, to help alleviate persisting credit pressures faced post-2008. See Table 7 for specific commitments to developing the financial sector and increasing credit accessibility.

Commitment	**Desired Effect**
WTO Accession	• Capital and current account liberalisations to drive future growth in Vietnam through increased investment and increased aggregate demand • Increased confidence from other nations as Vietnam integrates with a prestigious and globally recognised body
Private Bank Autonomy	• Allow private banks to allocate funds based principally on the free market, allowing funds to reach the most productive business ventures and thereby maximise efficiency of resources. • Enhance competition between banks so that they become more efficient • Eradicate the role of "capitalist cronyism" in business, so that factor inputs are delegated because of merit, not network status • Leverage expertise and technical knowhow of foreign banks
Enhanced Development of Capital Markets	• Remove foreign restriction limits to entice investors to allocate more funds in Vietnam • Develop regulatory systems in order to prevent the potential of financial crisis
SOE Equitisation	• Transfer more economic power to the private side of the economy, with the hope of reducing inefficiencies

Table 7: Efforts to Develop the Financial Sector and Address the Credit Crisis in Vietnam

The beginning of this period began with the GFC, which had seismic impacts for both investment and capital mobility (Thanh, 2008). With 50% of outstanding credit tied up in mortgage-backed securities and real-estate developments, the State re-evaluated the banking sectors' lending policies (World Bank, 2011). Over subsequent years, banking credit tightened even further in order to address mounting piles of bad debt, leaving less available for enterprises in Vietnam (Rama, 2008). In the long-term, the Vietnamese economy suffered. By 2012, growth slowed down to 5.2% (the lowest for over a decade) and over 100,000 businesses defaulted because of weak aggregate demand and reduced investment

[32] Growth that is inflation adjusted.

appetite (Leung, 2009). This chapter provides an overview of the recent developments in the financial sector of Vietnam, whilst taking stock on the main ways SMEs go about raising funds.

Lower growth figures were also a result of inefficient allocation of resources, as the State channelled larger proportions of the budget to unprofitable areas of the economy (SOEs). Figure 17 and Table 8 below show the effect of increased amounts of capital allocated to SOEs for 2008-2009. The graphs indicate that as SOEs receive a greater level of investment, the Vietnamese economy suffered, experiencing lower growth and higher inflation.

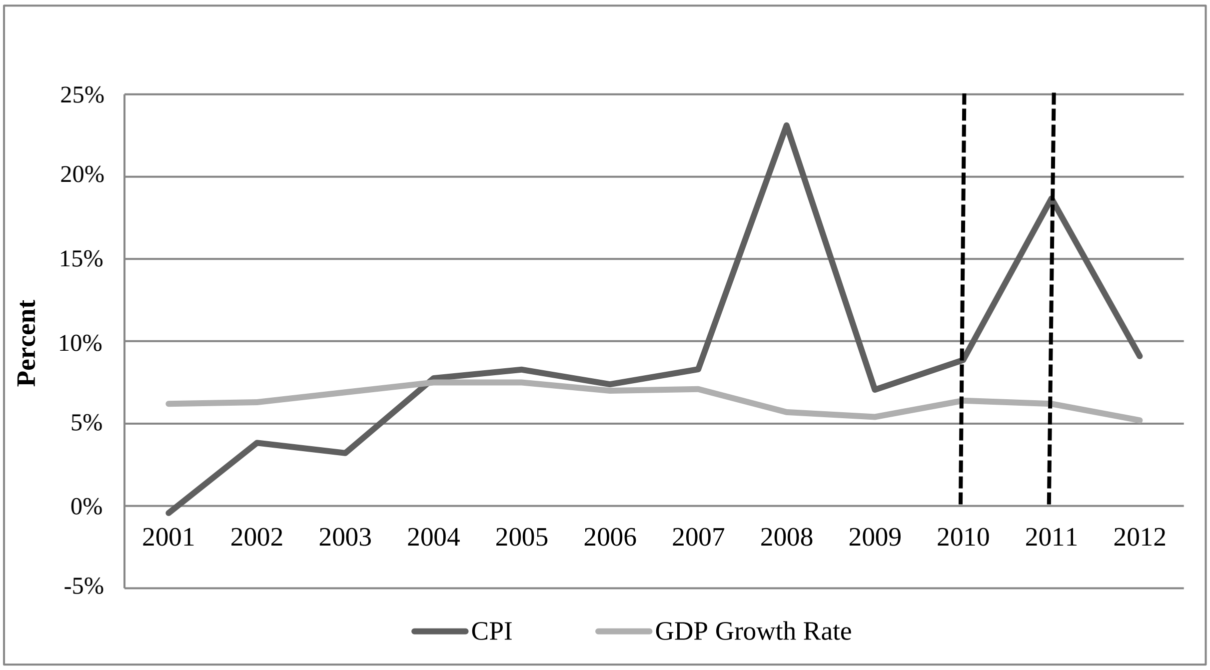

Figure 17: CPI vs. GDP, Vietnam (2001-2012)
Source: GSO (2011), Trading Economics (2017)

		Unit %	
Year	**State Budget**	**Borrowed Funds**	**SOE Capital**
2001	44.7	28.2	27.1
2002	43.8	30.4	25.8
2003	45	30.8	24.2
2004	49.5	25.5	25
2005	54.4	22.3	23.3
2006	54.1	14.5	31.4
2007	54.2	15.4	30.4
2008	**61.8**	**13.5**	**24.7**
2009	**64.3**	**14.1**	**21.6**
2010	44.8	36.6	18.6

Table 8: Implemented Capital of SOEs, (2001-2010)
Source: GSO (2011), Trading Economics (2017)

Although SOEs have historically accounted for a large proportion of GDP, research participants expressed a high degree of dissatisfaction with the change in investment patterns. Interviewees felt that the State's movement to re-introduce SOEs as the chief force for driving the strategic economy forward had resulted in increased corruption, greater inequality and less efficient allocation of resources. Indeed, for one interviewee: "Banks will lend to SOEs, because SOEs are functions of the State. If you don't do what the State wants, you could be in trouble" (U1, 2017). Moreover, many research participants expressed that, when competing against SOEs, private firms do not enjoy a level playing field. There is, therefore, a huge incentive for government officials or senior employees within SOEs to reaffirm their position of authority:

> *When you're running a state-owned company, you govern the interests and then you are able to dictate where the land goes, the money goes. Why would you want to change it? (BO2, 2017)*

To put it into perspective, the state sector absorbs 70% of social investment, 50% of state investment, 60% of private credit and 70% of Official Development Assistance (ODA), while creating 10% of jobs (BBC, 2013). At the same time, SOEs have knock-on effects for the micro economy as firms lack the ability, and therefore incentive, to compete in industries where SOEs are present, as they exploit their anti-competitive advantage. Overall, SOEs enjoy preferential access to factor inputs, draining available credit for inefficient production of goods and services as well as abusing monopolistic powers over potential rival firms, limiting the development of the economy (Wacker, 2017).

While challenges still remained, as SOEs maintained a strong position of authority within the Vietnamese economy, Vietnam's accession to the WTO provided opportunities to develop new streams of finance and trade globally. After more than a decade of negotiations, Vietnam became a member of the WTO in 2006, and subscribed to WTO requirements in January 2007. The prospect of increased trade and investment was well-received by financial markets, as projected levels of growth soared. The benefits of WTO memberships can be broadly broken down into two categories resulting from liberalisation – investment and trade, both of which had a positive effect on economic growth.

Similar to the US BTA, WTO membership removed restrictions that previously prohibited international trade, and Vietnam had preferential access to trade with some of the world's leading economies. Deeper integration with the global economy has been beneficial for internationalised SMEs in Vietnam, who are able to explore untapped markets through free-trade agreements. Specifically, many of my research participants spoke of how WTO membership provided opportunities to export to more lucrative markets, as well as tap into pools of investment. This was particularly true for businesses in the textile and apparel industries, as Vietnam removed previous quotas in 2007.

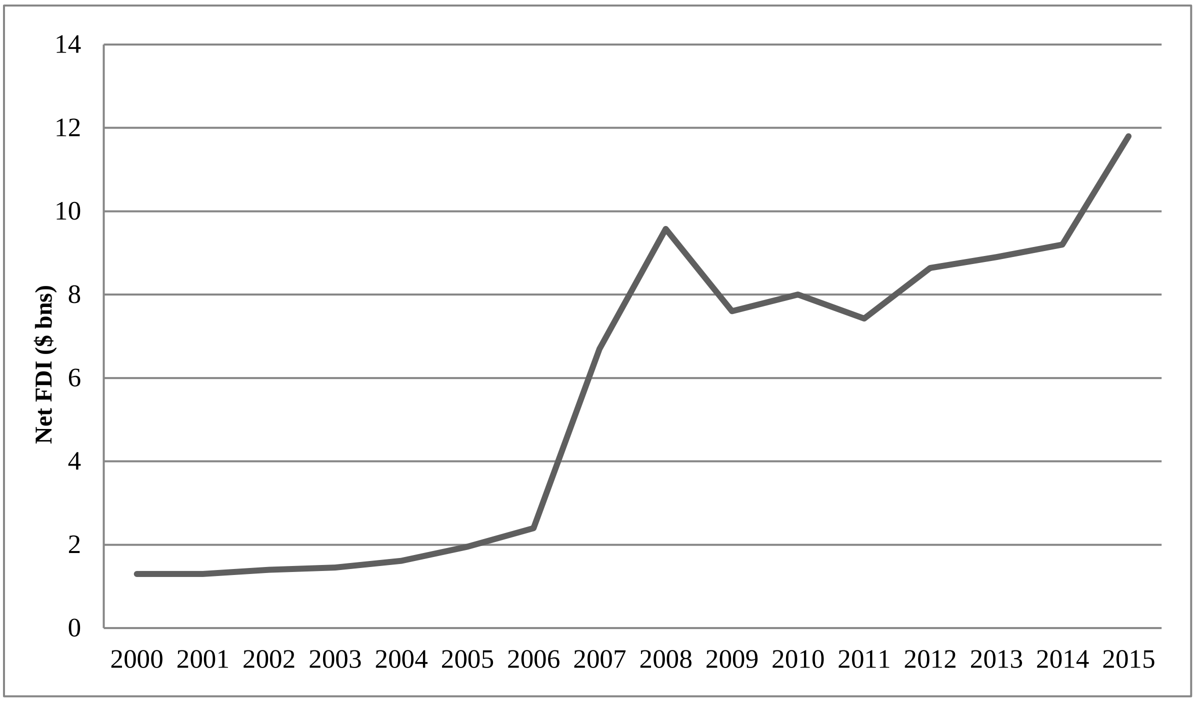

Figure 18: Net Inflows of FDI (US$), Vietnam (2002-2015)
Source: CIMB ASEAN Research Institute – CARI (2017)

One of the biggest benefits for local businesses is that WTO membership appeals to foreign investors, as Vietnam's economy becomes an increasingly attractive market (Brown, 2002). The WTO's revisions of legislative frameworks on foreign companies modernised Vietnam's outdated restrictions, stimulating more investment. Since joining the WTO, foreign enterprise looking to conduct business in Vietnam now operate under the same competitive elements as domestic enterprise (Brown, 2002). Furthermore, agreements made under the Trade-Related Investment Measures mean that since January 2008, foreign companies are able to own 100 percent-owned subsidiaries in the majority of economic sectors. Policy initiatives, under the jurisdiction of the WTO, have made Vietnam an environment more conducive to investment as means of conducting business was easier:

> *Everyone wanted to capitalise on the growth, but the major problem of doing business in Vietnam was that it was difficult and time consuming. Adopting WTO changed this… As the regulatory environment eased, international investors wanted to get more involved (BO4. 2017)*

Figure 18 displays the effects of such financial developments, showing how FDI surged upon WTO membership. In short, deconstruction of previous trade barriers stimulated economic growth and long-term opportunity.

While FDI had become an increasingly attractive option for Vietnamese firms to raise funds, internal financing[33] remains a common way to fund expansion and is often preferable to bank loans, bonds or

[33] When a firm uses its own profits as a source of capital for investment

equity as there is a lower opportunity cost. This idea is rooted in Myers' (1984) Pecking Order Theory[34], as business owners interviewed expressed their preference to finance business expansion internally, as oppose to taking on debt and paying interest or selling equity in the company. This was a common theme among many of my informants. For example, one business owner expressed that, although they could leverage equity capital markets, they actively chose not to:

> *We are probably big enough to IPO and we are potentially ready, but we would not do it. We want to retain control of our own company, rather than act in the short-term interests of shareholders. (BO3, 2017)*

The problem, however, with personal financing is that, loans rarely exceed $100,000 – and this is only in extreme cases. Typically, the amount available is considerably lower. Therefore, these forms of capital are at best a start-up loan, rather than a long-term investment for substantial business expansion. Yet, for many firms starting out, they require a large injection of funds, particularly if their business venture is expensive:

> *On many recent occasions, we have contacted family members in order to finance projects – but that has only really been smaller amounts…. However, our business is slightly bigger than simply one shop, and in order to reach the clients we want to reach or to grow, we need larger investments. (BO2, 2017)*

As a corollary, SMEs in Vietnam struggle to raise the required capital to begin with. This acts as a barrier to economic growth for the wider economy, particularly given the role of SMEs. Consequently, entrepreneurs experience a high degree of uncertainty in obtaining loans. This became a major issue for many informants who stated that using forms of financing from family members for growth of business was slow and sporadic in parts.

Despite being a common form of financing, particularly for younger firms, relational financing generally does not have the scale to deal with the magnitude of funding required. Due to Vietnam's rapid growth rates, personal financing is unequipped to deal with the current levels of demand. Without the development of alternative and modern investment channels, Vietnam would have struggled to establish an environment conducive to the start-up community (Painter, 2003). The necessity for new forms of financing became apparent, as business owners applied pressure to the government to react accordingly. As a response, the Vietnamese government re-orientated the banking system, shifting more power to the private side in the hope of addressing this capital shortage.

Bank-based systems have undergone a radical transition over the last two-decades. Most notably, increased provision of foreign banks coupled with autonomous allocation of credit have been positive

[34] The idea that companies have a hierarchy of preferred capital structure

for Vietnamese SMEs. Over time, the Vietnamese State has gradually reformed the banking sector through a number of decrees, revisions and less restrictive controls on how they conduct business.

While this thesis has already discussed the advantages of foreign banks, that is, increased provision of additional credit streams, an additional benefit is that they breakdown crony capitalism[35]. Historically, shifts towards a more free market economy have had limited impacts, as a strong relationship between the State and affiliated enterprises remains the primary force in dictating the nature of funds allocation. This allowed corruptive practices to boom, leaving unconnected private enterprise to bear the consequences (Tenev, 2003). However, according to my informants, the introduction of foreign banks as well as liberalisation of domestic banks has served to diminish the influence of the former ideological stance, challenging relational financing. Many informants explained their preference for working with foreign banks, as they have a greater appetite for risk and judge loan applications on the principles of merit, rather than if senior executives are well-connected:

> *The Foreign Banks want to do business whereas some of the domestic banks want to support SOEs. Most of the business I do is through HSBC, they are more reliable. (BO4, 2017)*

> *Foreign banks have a greater appetite for doing business with Vietnamese SOEs. There have been several occasions where we have been turned down for a loan from a domestic bank but granted a loan from a foreign bank. (FA3, 2017)*

When probed further about why HSBC was more "reliable", the interviewee explained that foreign banks undertake third party auditing checks on many of the firms they work with. Rival firms, on the other hand, leverage their personal network with state officials or senior members of financial intermediaries in order to achieve financing. This theme arose among many research participants. There is a clear division between the banks. Loans granted from domestic banks in some cases are the result of personal ties, and loans granted from foreign banks are the result of merit and business reputation. In some cases, loan applicants who had a personal connection to individuals holding positions in government or in banks received lower interest rates on the loan, despite not having the required collateral:

> *To any international standard bank in Vietnam, like Standard Chartered or HSBC, they have independent auditing companies. Through this they can analyse what your property is worth and they will lend you about 60% of your assets – that is how business is done… This is not uniform. A friend of mine, because of her close ties to the CEO of the bank, she was able to borrow more than her assets were worth, and at an incredibly low rate. (BO1, 2017)*

[35] Whereby success in business is a result of relationships with government officials or business people.

These findings are reflective of a vast amount of the literature already written about private firms in Vietnam that are searching for finance. Le et al. (2006) find that networking with managers in organisations has a positive effect on obtaining funding, as they provide a level of legitimacy. In absence of established regulatory institutions, such as credit rating agencies, financial intermediaries turn to interpersonal relationships and reputation in order to measure previous business credibility. This becomes increasingly important for transitional and emerging economies, like Vietnam, where financial reporting standards are underdeveloped (Le and Nguyen, 2009). Despite efforts to reform bank lending practices and make accessing funds a fair process, officials at any level of politics have significant influence in allocating capital (and land) to particular projects (Mallon, 2004; Meyer & Nguyen, 2005). Holding close ties with officials in positions of power is a key determinant of capital allocation, so much so that a relationship can nullify the disadvantage of being a private firm in Vietnam.

Displaying growth in credit funnelled to the Vietnamese private sector from foreign banks has highlighted the importance of such reforms. However, it is particularly useful to understand specific industries and sectors that have benefitted directly and what has been the role of the State therein (directly addressing RQ2). In order to do this, an analysis of bank-based lending by sector is required. Figure 19 displays a number of sectors that have seen substantial growth in credit provided to them, with “other activities”[36] enjoying the most growth, as vibrant new retail businesses emerged.

Vietnam’s “*Industrial Development Strategy through 2025, vision toward 2035*”, outlines a roadmap for the economy’s future development model. The strategy underscores the importance of secular growth opportunities and thus provides an understanding as to why these sectors of the economy are receiving an accelerating amount of credit. The objectives of the strategy are as followed:

Strategy Number	Goal
1	Develop the Industrial Sector
2	Prioritise agriculture, rural industrialisation and modernisation
3	Integrate fully with the global economy, taking advantage of trade opportunities
4	Develop dual-purpose industries to service national defence and security
5	Promote the industrial sector on the basis of sustainable development

Table 9: Vietnamese Industrial Development Strategy
Source: (Chinhphu.vn, 2017)

[36] “other activities” are those mainly compromised of retail lending

While both domestic and foreign banks do have some degree of autonomy and freedom to allocate as they wish, it is important to remember that, "if you are doing business in Vietnam, the role of the State is very, very big" (Mobius quoted in Bloomberg, 2013). The role of finance, therefore, becomes a tool of the State, used to achieve particular goals. As is the case with many soviet-style emerging economies, the Vietnamese State will often encourage credit allocation towards specific sectors by offering cheaper rates on debt, subsidies or tax relief:

> *Times by times, the government encourages the development of some industries. The government can issue policies to guide the finance and banking sector to support specific sectors, for example, the power generation and distribution, the infrastructure and now the hi-tech agricultural farming. (FA4, 2017)*

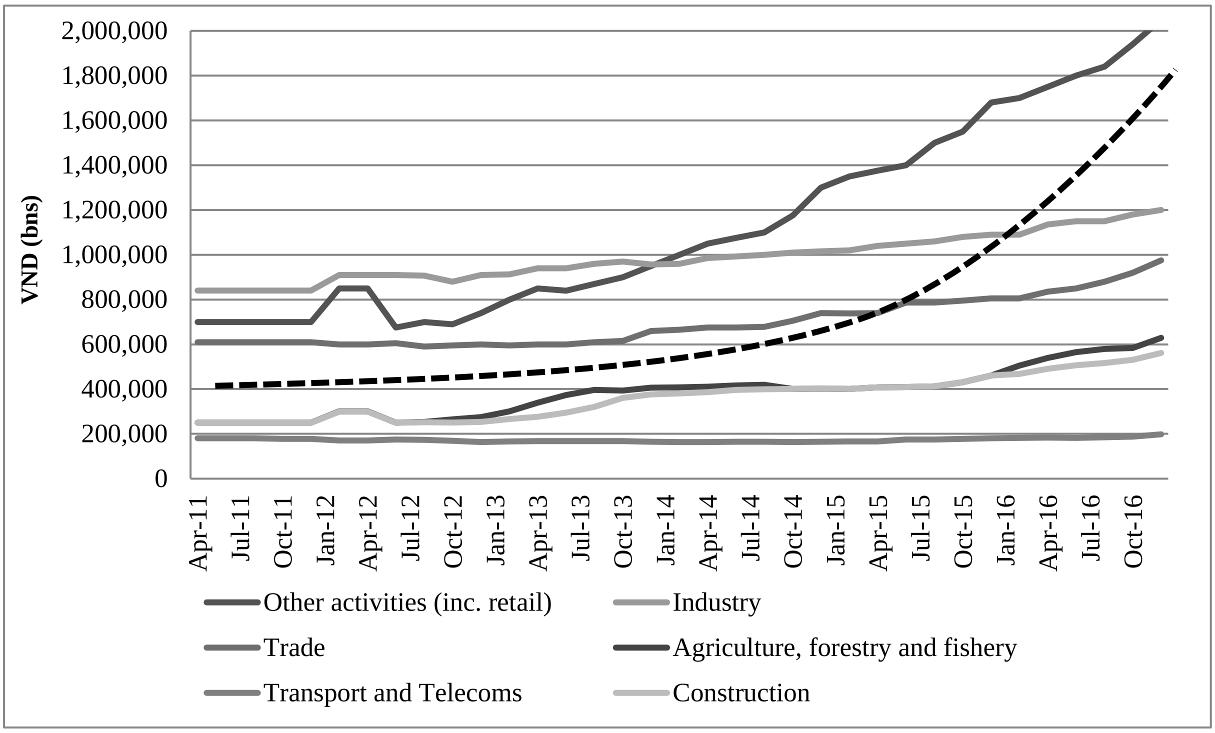

Figure 19: Sectoral allocation of Vietnamese Credit: 04/2011 - 12/2016 (VND billions)
Source: Vinacapital (2017)

Evidently, the State retains a major influence on the direction of funds allocation, as the sectors it wanted to grow received the most finance. However, this is not problematic for two reasons. Firstly, foreign banks and private domestic banks are increasing their presence in the Vietnamese economy. As a consequence, factor inputs are more likely to flow to businesses that will use them most productively (FA5, 2017). Secondly, even in capitalist economies, it is common for governments to offer tax incentives or initiatives for specific industries – governments regularly intervene in markets in order to correct market failure. The development towards more efficient allocation of resources by the banking sector is encouraging, but they require further reform. The problem, however, is when banks allocate business based on networks, rather than because of business acumen. Hence, new channels of investment are required to utilise resources at their maximum potential.

Of all the developments to the financial sector made over this period, the one that has attracted the most attention is the capital markets, as commentators stress the importance of diversifying investment channels away from banks. Since their establishment, the Vietnamese capital markets have attracted 700 listed companies (as of 2017), with a combined market capitalisation of over USD 78 billion. A large proportion of the growth has occurred as a result of SOE reform, as businesses have become equitised, transitioning into the private sector through initial public offerings (IPOs). However, Vietnam's equity market is relatively small when compared to its Asian counterparts. This is because the majority of listings are small to medium enterprises (SMEs), with many of the more developed companies not yet listed due to a reluctance to commit to enhanced transparency (World Bank, 2014). In order to increase the quality and number of firms listed on the stock exchange, and therefore attract more foreign investors (whose shares accounted for around 15% of total market volume of the HOSE in Q3 of 2016), Vietnam launched a new stock index. The VNX Allshare serves as a composite index for Vietnam's two stock exchanges, incorporating derivatives and exchange-traded funds (Nikkei Asian Review, 2016). Moreover, by equitizing some of the more developed firms that have more optimistic growth rates, Vietnam has hoped to make a wider range of securities available to investors (World Bank, 2014).

An over-reliance on, and vulnerability to, the banking sector for Vietnam has meant that the Government has repositioned its focus towards developing capital markets (FA2, 2017). Specifically, over-leveraged banks and mounting levels of NPLs challenge the stability of Vietnam's financial system and economic development (World Bank, 2011). In order for Vietnam to continue such optimistic growth rates over the next 5-10 year horizon, huge injections of funds are required (TT3, 2017). Approximately US 200 billion dollars are necessary to finance proposed supply-side projects (Vietnam Ministry of Planning and Investment, 2017). This capital requirement, however, is beyond the reaches of the Vietnamese government.

The need for significant capital market development, most notably bond markets, is paramount for the success of the Vietnamese economy. Specifically, the main purpose is to fuel large injections of funds into new business opportunities, in order to spur on growth and enterprise (Meyer and Nguyen, 2005). Through lifting embargos and previous sanctions for foreign investors, a business community is now present in Vietnam and funds channelled to prosperous business raises allocative efficiency (FA2, 2017). While none of my respondents had directly listed through the stock exchange, a number of them had held positions at companies that required an extensive knowledge of capital market development over the last decade. The first assessment made about the stock market is that it is a new strand of financial services in Vietnam and it will take time to adjust to the market-mechanisms before it becomes an effective venue through which to raise funds. Many interviewees explained that the process is complex and unfamiliar to businesses in seek of finance. Investors lack a comprehensive understanding of the regulatory structures surrounding capital markets, meaning that they are not a common means of raising funds:

> *Sometimes younger people with enterprises will make use of this [equity markets], to issue shares. But most of the companies at the moment are not used to that form of fundraising. They do not want to go on stock market, as they have to share the power. The legal and financial framework is still difficult for them and prevents them from making use of bonds and equity. (FA5. 2017)*

The second assessment to make is that listing securities is an option, and is not suited to every firm's business model. As previously discussed, debt and equity incur a cost to the firm. Whether this be through interest payments or dividends, firms looking to list have to consider a number of factors. Having said that, as Figure 20 shows, the stock exchanges have both demonstrated encouraging growth in recent years, reaching a combined market cap of USD 78 billion in early February 2017 (FA1, 2017). As Vietnamese entrepreneurs become more familiar with the market mechanisms, the stock market will become a major source of capital generation.

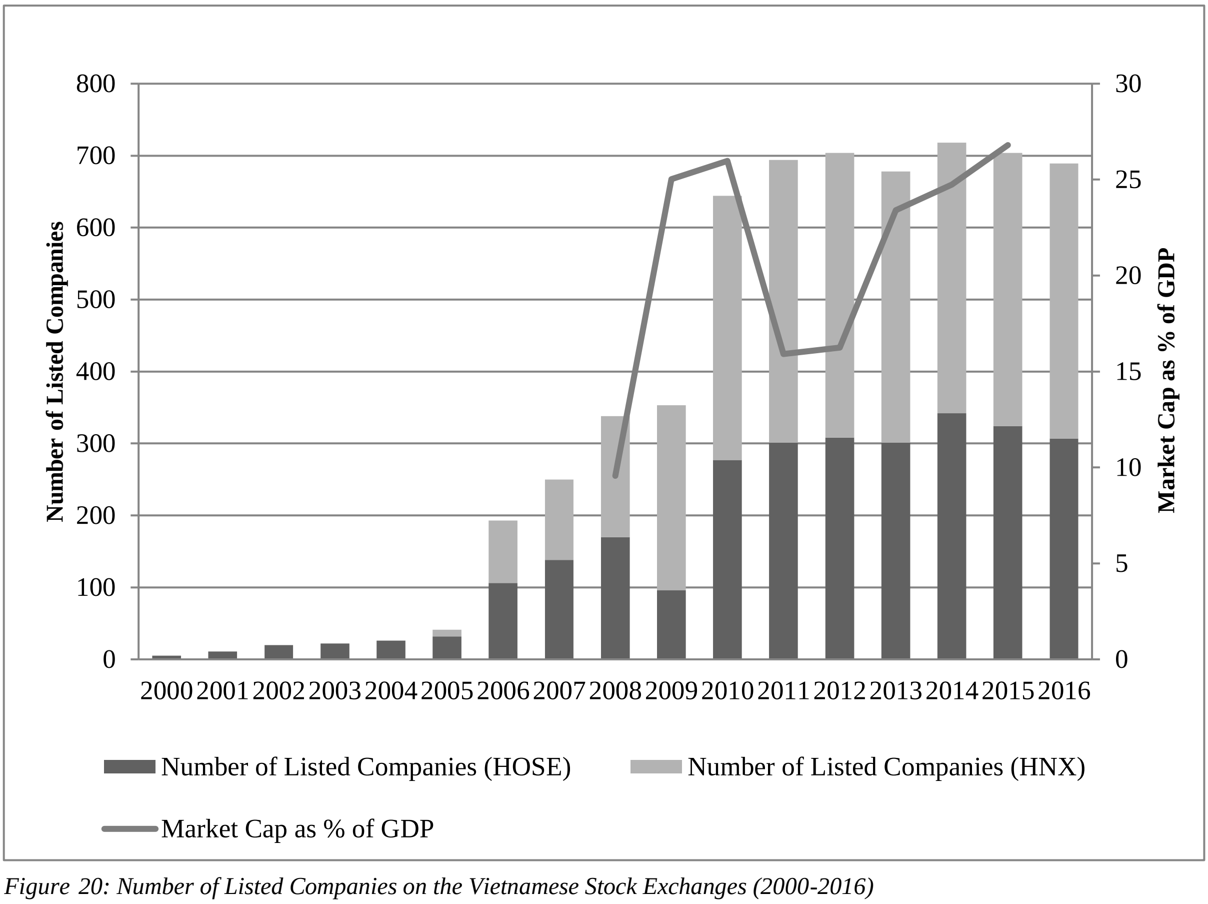

Figure 20: Number of Listed Companies on the Vietnamese Stock Exchanges (2000-2016)
Sources: World Bank (2017), Ho Chi Minh Stock Exchange (2011), State Securities Commission of Vietnam (2017) & the Global Economy (2017)
**note: data "Market Cap as % of GDP" for 2000-2008 was unobtainable*

The government bond market in Vietnam accounts for 21.5% of GDP, which is low when compared with its fellow ASEAN counterparts (World Bank, 2017). With the average size of a bond issue being usually less than US 20 million dollars and a progressively tighter monetary policy[37], growth of the bond market has stalled. The government bond market is further struggling, as 65% of government bonds are concentrated in the reserves of the SOCBs. Reserve requirements and liquidity regulations force the SOCBs to hold for longer periods, often to maturity (Hung, 2012). This means that they are not reaching the secondary market, resulting in illiquidity. In addition, a small investor base for the government bond market has meant that the market has a shortage of market makers. In this respect, regulation in Vietnam has resulted in an inactive bond market and the inability to raise funds. The government lacks the capabilities to initiate the debt required for spending on long-term infrastructure projects (Hung, 2012). Vietnam's government bond market could benefit from a more liberalised financial system, allowing them to trade more freely.

Despite issues, the bond market has witnessed growth in recent years (Figure 21), as fixed-income securities have grown from 15% of GDP in 2012 to 19.35% of GDP in 2015 (Vinacapital, 2016) – 90% of which are government bonds. With only a small proportion of the fixed income market made up of corporate loans, the majority of debt is state-owned. Although the fixed income market is still in its early stages of development (World Bank, 2014), there has been a concerted effort to address sluggish growth in corporate bonds. Specifically, attending to "ineffective primary markets, illiquid secondary markets, the absence of a solid institutional investor base and the absence of the necessary infrastructure and market support services" (World Bank, 2014:4).

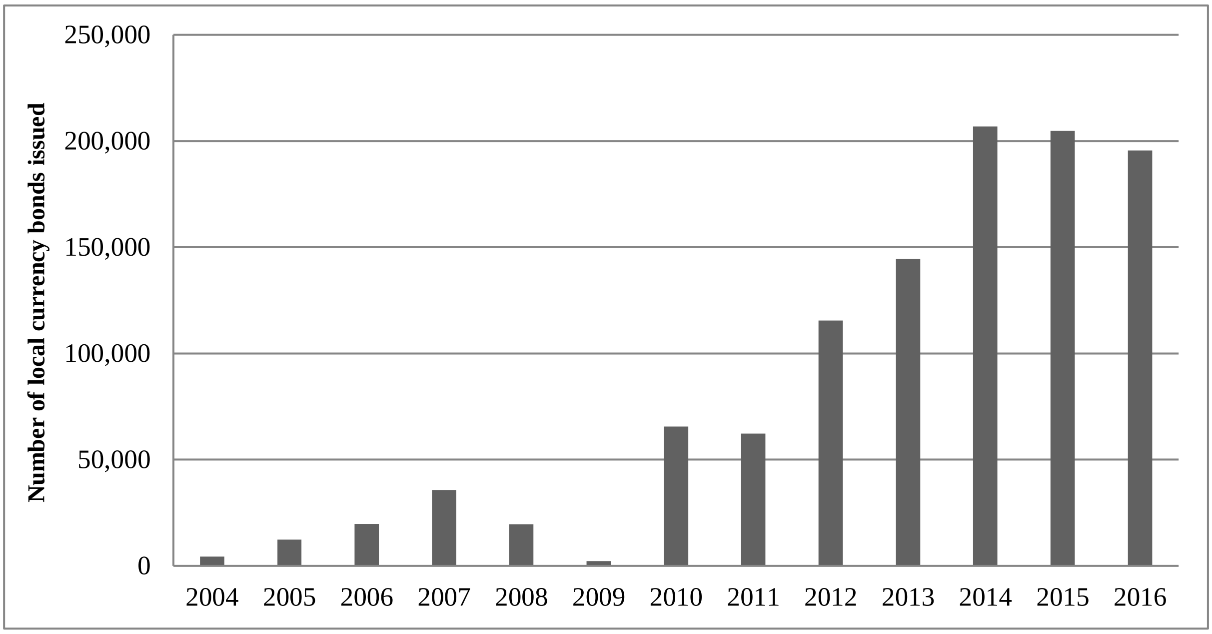

Figure 21: Vietnam Government Yearly Bond Issuance (2004-2016)
Source: Bloomberg (2016)

[37] Higher interest rates.

With the rise of the capital markets in Vietnam, particular industries have emerged with better access to funding than others. Therefore, it makes an interesting research topic as to *why* some sectors of the economy can raise debt or equity more easily, questioning the role of the State therein. As discussed in the literature review, the main benefits of enhanced privatisation and a movement towards capital market development is for better allocation of resources, managerial expertise and technological innovation. Given the development goals stated by Vietnam's Industrial Development Strategy (Table 9), it is clear to see why sectors such as Food & Beverage and Real Estate and Construction & Materials make up the bulk of equity (Figure 22). Vietnam's SOEs, often referred to as "zombie companies", threaten long-term economic growth by creating minimal jobs, contributing little to export earnings and maintaining inefficiencies – relative to their high running costs of the nation's public finances. A major benefit of the stock market, however, is that it acts as a vehicle to transfer ownership of SOEs to the free market, with the view of making them more efficient:

> *The Stock Market is growing in areas that the State wants to develop. The State is equitizing many of the SOEs in industries they view as essential to Vietnam's economic growth…they have finally realised the benefits of the private sector. (BO2, 2017)*

Thus, equitisation of SOEs in industry sectors understood to be crucial to the future of sustainable economic growth is predicated on the hope that a higher proportion of funds will flow to productive enterprises. In addition to this, Vietnam revisited their laws on foreign investment, allowing foreign ownership of up to 100% for particular industries in 2016. Indeed for Le Net at LNT Partners (2017), "removal on the foreign ownership cap at 49% [means that] those needing capital to grow will be able to".

For companies looking to list, there are huge advantages. Debt and equity markets offer the ability for companies to tap into huge pools of funds, allowing firms to access the funds required for business expansion. Aside from being a source of credit, stock markets promote transparency and disclosure. Before listing, firms have to meet regulatory criteria, requiring the firm to be more accountable and trustworthy[38]. Additionally, there are tax incentives. Tax breaks have reached up to 50% for companies who are looking to list on the stock exchange. However, despite strong efforts to persuade companies to join the stock exchange, numerous firms do not meet the necessary pre-requisites. Many firms are waiting for the 'right opportunity' to list (BO3, 2017). That is, when the capital markets have matured a bit, after having gained depth and liquidity. The inauguration of the Ho Chi Minh and Hanoi Stock

[38] Interviews revealed that not all firms, however, appreciate the importance of transparency and disclosure. Given Vietnam's youth in terms of financial services, companies see transparency and disclosure as more of a hindrance to effective company management. In the long run, however, complying with regulatory standards is an essential part of business (Taussig and Malesky, 2009). Most notably, in order to attract a wide base of investors companies need to ensure financial reporting and documentation is accurate and reliable.

Exchanges are symbolic of contemporary capitalism and represent a commitment to the development agenda for the rest of the country.

It is interesting to look at how the development of the stock market has changed the nature of capital allocation in Vietnam, specifically by looking at what sectors are accessing capital markets and which ones are not. Figure 22 provides a sectoral breakdown of the listed companies on the HCM stock exchange, providing an insight into what sectors most commonly use the capital markets as a means of financing operations. For many interviewees, there has been a realisation for the State, as to the potential of the private sector. Indeed, the sheer process of creative destruction allows for a better performance in the private sector.

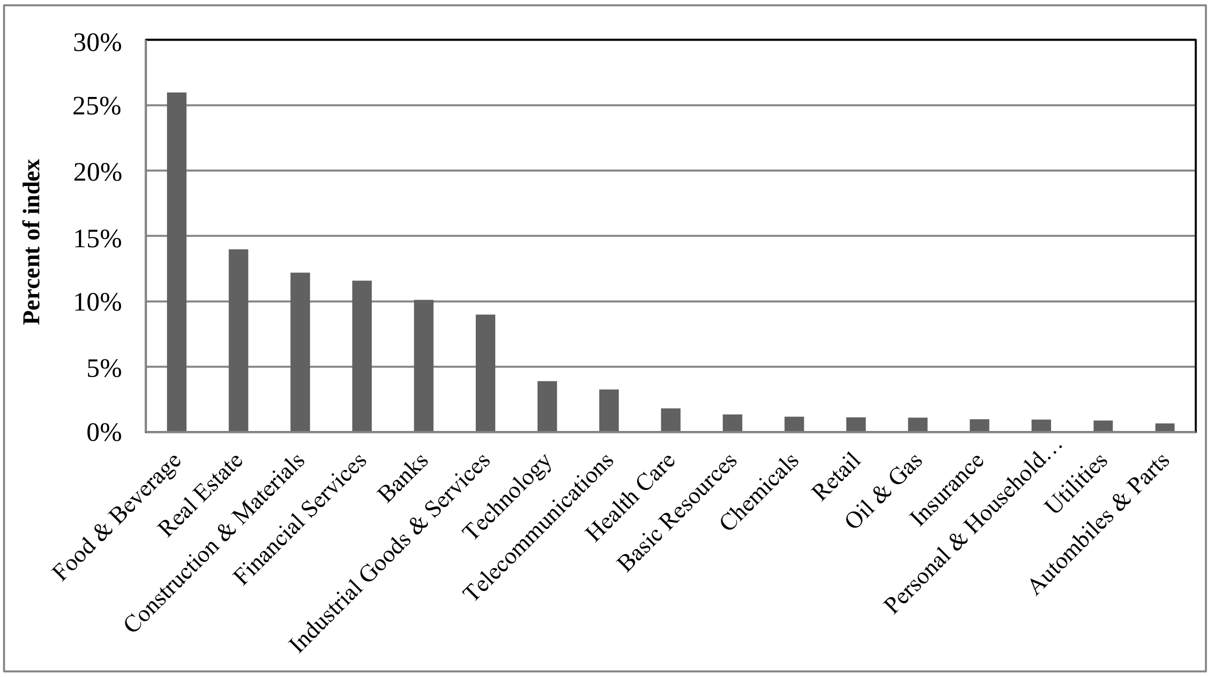

Figure 22: Sector Breakdown of the Companies trading on the HCM Stock Exchange (2017)
Source: FTSE Russel (2017)

In order to entice more investment in hi-tech agriculture, and therefore stimulate growth in the sector, the State introduced a number of incentives. Specifically, the Prime Minister of Vietnam has proposed a number of awards applicable to food and beverage companies that promote hi-tech agriculture, upskill their labour and support the development of innovation in agriculture. Some agents explained that the Vietnamese state was actively applying tax incentives and subsidised land rentals for foreigners looking to invest in Vietnamese agriculture:

> *The State wants to develop the food and beverage sector. That is why you have seen equitisation of SABECO, HABECO etc. In general, they want to maximise the innovation in that sector of the economy and ensure greater productivity…there has been a number of efforts to attract more investment. Whether that be tax breaks or partnerships with the private side, they are trying to do all they can to get more investment into food and beverage. (FA4, 2017)*

Companies have taken advantage of such investment opportunities, as Vingroup for instance has invested USD 94 million toward innovative agriculture projects (Vietnam Economic Times, 2015). However, this is one of few examples. The majority of agricultural firms in Vietnam struggled to raise the finances required for hi-tech developments, and historically have underperformed in attracting capital inflows. As the State raises more capital for innovative projects, the effects of incentivising investment for the food and beverage sector will likely materialise in the future (FA4, 2017).

This public-private partnership has involved establishing a cooperative arrangement between the state sector and the private sector in order to reach a collective goal – attaining technological advances in agriculture (U1, 2017). By leveraging the commerciality of the private sector alongside the law-making capabilities of the State, this partnership hopes to stimulate more investment into the area. In this example, the State still plays an active role in dictating the nature of funds allocation, as more credit begins to flow towards this particular sector. Informants explained how a slow and gradual process to privatise the agricultural sector has helped create a better performing sector as well as attract more attention from the investment community:

> *Previously foreigners were sceptical of investing in the agricultural industry. It was dominated by SOEs and therefore trying to compete was difficult. In recent years we have seen more state-owned enterprises becoming equitized and more efforts to create investment incentives. (FA2, 2017)*

Vinamilk, a dairy company previously owned by the State, underwent equitisation in 2016, as removal of the 49% foreign holding cap attempted to attract more investors. According to Vinacapital (2016), Vinamilk is the first significant SOE to equitise, representing deeper commitments from the government to develop the market economy[39]. While it is too soon to see the effects privatisation has had on the allocation of resources, the company's annual reports indicate rising profits as it sells more shares to the public. Higher profitability indicates a more efficient company, as costs have been cut and revenues have grown.

In recent years, the government has additionally made efforts to develop the real estate sector, as office towers, housing developments and retail centres have expanded in cities. In order to meet the accelerating demand for real estate, the State introduced initiatives to boost the market. First, the SBV, addressing a liquidity shortage in real estate corporations, lent $7.2 billion specifically for NPLs (VinaCapital, 2016). At the same time, real estate developments have received preferential interest rates. By alleviating companies of bad-debt pressure, there is more money for available investment

[39] Previously, the State had been criticised for delaying or slowing the process of equitisation in the most profitable firms, while only selling off shares in the smaller ones. Vinamilk, however, was a market leader exhibiting strong growth patterns and increasing levels of profit (Reuters, 2016). The share sell off of one of the State's most lucrative assets represents a full commitment to the development of the market economy.

elsewhere, such as low-income/affordable housing. Overall, these movements have served to create a real estate market more conducive to investment by promoting stability and confidence in the sector.

The *Law on Housing No. 65/2014/QH13* and *Law on Real Estate Business No. 66/2014/QH13* were two pieces of legislation that focussed on attracting more foreign investors to the real estate industry. Specifically, the new legal framework provides foreign investment enterprises with similar rights and obligations to domestic entities. By enhancing the rights of foreign investors, housing developments are more accessible. Thus, the real estate market attracts a wider base of investors, enhancing liquidity. Higher volume of trading and investment in the real estate market means that more credit is available to boost the sector. Relaxed restrictions on foreign holdings in the Vietnamese real estate sector has led to a high degree of market capitalisation dominance, as it now accounts for 14% of total investment.

Another sector of the economy that dominates the HCM stock exchange is construction, which accounts for 12.2% of market capitalisation. In order to sustain long-term productivity growth, investment in infrastructure has become central to Vietnam's economic development model. Funding for which is estimated at approximately US 200 billion dollars – both from the public and private side (Vietnam Ministry of Planning and Investment, 2017). Consequently, the State designed incentives to allocate more funds towards construction and materials. Most recently, efforts to meet this capital requirement has included the equitisation of three new construction companies in March 2017. Faros Construction, Hao Binh Construction and Xanh Real Estate Service and Construction have all recently joined the FTSE Vietnam Index (Barrons, 2017). Further efforts to stimulate growth have included allowing a larger degree of ownership for foreigners looking to invest in construction companies (Indochine Counsel, 2017). Overall, the Vietnamese government has made positive steps toward enacting investor friendly policies in order to drive more investment towards the construction industry and therefore meet their development goals.

Table 10 presents a breakdown of some of the biggest transactions done through the equity capital markets. As the Vietnamese State moves to hand more industry to the private sector, it represents an ideological change in Vietnam and commitment to the deepening of the capital markets.
Clearly, there has been a consolidated effort in Vietnam to grow certain sectors of interest and achieve greater funding for companies that are experiencing a capital deficit. While the State maintains an active role in incentivising funds allocation, the sands have shifted. There is a much less aggressive approach to managing the economy. The State now looks to guide the economy, rather than control it.

Construction Company	**Date of IPO**	**Specialisation**	**Equity Raised (USD)**
Tin Nghia Corporation	April 2016	Storage and Warehouse rental services, agricultural products	7.4 million
CCI	July 2016	Construction Consultancy	8.8 million
Fico	August 2016	Building Materials	12 million
Vietnam Engine and Agricultural Machinery Corporation	August 2016	Manufactures construction machinery in addition to automobile parts	94.1 million

Table 10: Some of the Biggest Construction Companies to IPO in 2016
Source: FTSE Russell (2017)

4.5 The Future of Financial Development in Vietnam

Financial development in Vietnam hinges on the State's ideological perspective. Politicians committed to running a socialist orientated economy often support strengthening the role of SOEs. By contrast, politicians committed to developing the capital markets encourage equitisation of SOEs. The presence of SOEs in the economy has a number of effects in determining the nature of funds allocation in the economy – hindering capital market development, absorbing a large proportion of banking credit and reducing inflows of FDI. Overall, it is well documented that SOEs cause inefficient allocation of resources. Consequently, improving funds allocation in Vietnam will require further equitisation of SOEs.

But well-executed equitisation is not the only obstacle to further financial development in Vietnam. Inadequacies in *corporate governance*, in both the state-sector and the private sector, undermine the development in the capital markets. While this holds true for most emerging economies, Vietnam ranks consistently low on the integrity index, much to the detriment of companies in search of funding. Supporting the rapidly emerging business sector therefore also requires further institutional developments to improve transparency and disclosure. Before firms can access finance, they need to legitimise their financial statements through working with third-party, independent auditors. In order to fully gain the trust of global investors, it is imperative that Vietnamese SMEs be more forthcoming in their approach to providing company information.

Finally, in order to attract more investors Vietnam needs to advance the derivatives market. Adding more complexity and depth, through the ability to hedge investments, to the capital markets will attract a wider investor base and improve liquidity. At the same time, Vietnam must be cautious. Creation of derivatives markets, without strong regulatory systems in place can have disastrous effects for the economy.

Although considerable efforts have gone into reforming the state-owned sector and levelling the playing field, the State maintains a high degree of control over funding allocation. SOEs maintain control over much of the commercial activity in Vietnam, exerting strong influence in the oil, mining, education and banking sectors (FA1, 2017). The role of SOEs in the economy and their control over market forces is largely a result of Marxist-Leninist ideology, which underpins much of Vietnam's political structure. While some commentators argue that SOEs were initially designed to correct market failures, provide employment and limit inequality (Wacker, 2017), there has been a collective realisation concerning their mismanagement of resources, inefficiencies, low productivity and financial instability.

Central to providing more funds to the economy is attracting a wider investment base, which, to some extent, the Vietnamese government has done through a consolidated effort to level the playing field for SOES and private firms. In 2007, the government began an ambitious plan, targeting 430 SOEs for divestment before 2016 (Allens & Linklaters, 2017). However, poor performance and lower than expected amount of divestures has meant these targets have not been met. Since then, revisions have been made and the Ministry of Planning and Investment targeted a further 375 SOEs to be divested by 2020 (The Diplomat, 2017). Of the companies equitised, the State will only hold over 50% stakes in a minority of them while maintaining total control over areas of strategic importance such as defence, nuclear power and money printing.

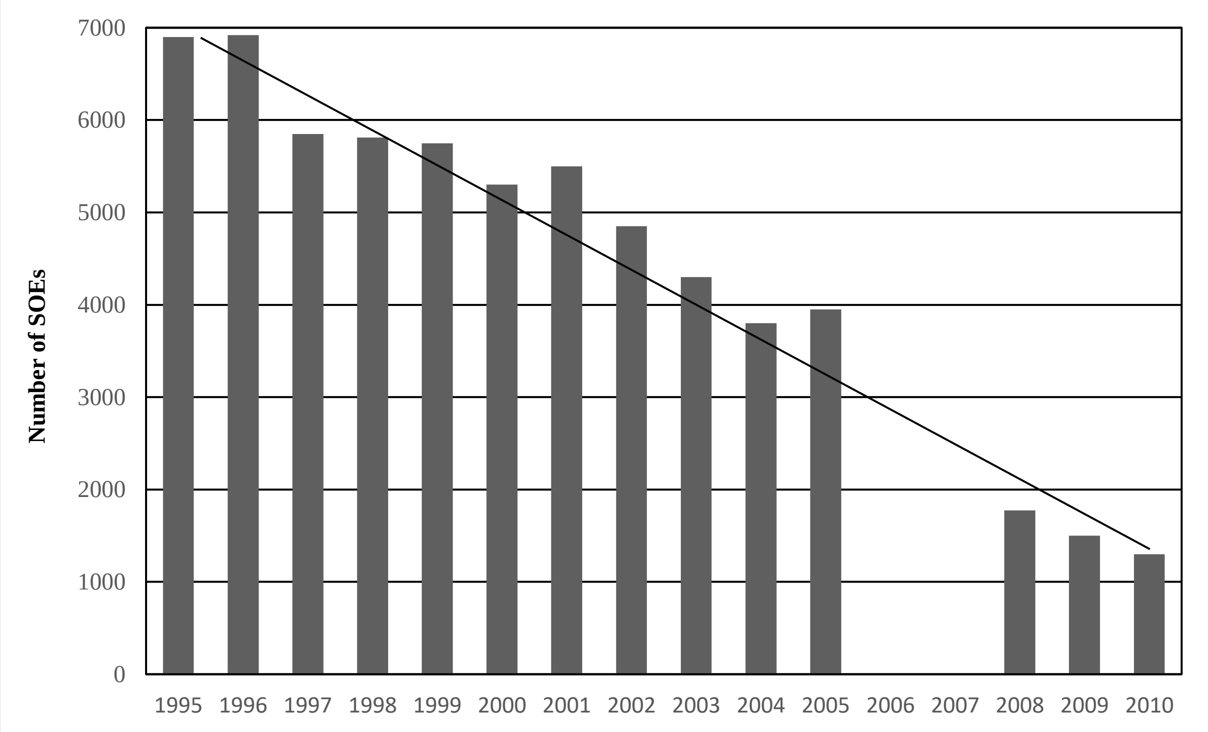

Figure 23: Number of 100% State-Owned Enterprises (1995-2010)
Source: Nguyet (2015)
**note: data not available for the period of 2006 & 2007.*

While the headline targets for SOE reform are encouraging (Figure 23), a number of barriers to effective equitisation remain, leaving the investment community somewhat alienated. Before a SOE can become equitized, there are a number of conditions that must be met. Specifically, they must be financially sound. However, as already noted, it is not common for SOEs to be profit making or in a healthy position with excess cash. Vinashin, for example, became accustomed to accessing cheap rates of credit, enjoying business sovereignty and receiving tax-breaks due to the fact that it was state-owned. In the long-run, however, this eroded its ability to remain competitive and maintain a healthy financial position, leading to debt-related insolvency. As is the case with many SOEs, their political status is a great hindrance to being a well-run business. When it comes to equitisation, therefore, SOEs often struggle to meet the criteria and are ultimately unable to become privatised. This common theme among SOEs – that they are inefficient and loss making – has become a barrier to successful equitisation.

While Vietnam has made progress in providing more systematic information and transparency, auditing standards are not as sophisticated as they need to be for the capital market to flourish. The current issue for corporate governance in Vietnam is that the majority of firms do not operate under a comprehensive legal structure or regulatory framework (OECD, 2015).

In order to build trust among shareholders, many emerging economies adopt the G20-OECD principles of corporate governance. The principles underscore the importance of transparency and disclosure, to provide confidence to shareholders who avoid investing in companies with misleading financial performance indicators. Vietnam would benefit from such practices, applying effective law on information and publishing of reliable financial data, as it would instil confidence among investors, in turn fuelling capital market growth (TT1, 2017). Adhering to regulatory disclosure was a key theme that emerged from the interviews. For example, one interview highlighted it is common practice for companies to manipulate their systems of financial reporting, in order to either pay less tax or to achieve financing:

> *SMEs try to get the balance between paying minimal taxes but also raising capital, and that's why they'll have multiple books. That's the bottom line problem; everyone has two sets of books.*
>
> *People have different books, different reports to do whatever you need to do, whatever you need to do to legitimise your taxes. And then when it turns out you need a loan, you need to report the real numbers because you've claimed to be making no profit for the last 10 years (TT1, 2017).*

With regard to accounting standards, all informants felt that Vietnam's slow progress to date persists to be a major barrier to capital market development. Several respondents indicated dissatisfaction with current levels of transparency, explaining that this is the principal reason for why Vietnamese SMEs struggle to raise funds.

A lack of available information means that equity investors struggle to operate effectively in the market economy, meaning that either they resort to speculation or they invest elsewhere. Transparency is good for capital markets because it reduces market inefficiencies. For those looking to invest in Vietnam, lower transparency increases the risk of investment, subsequently causing higher risk premiums, in turn reducing the attractiveness of the Vietnamese stock exchanges (FA2, 2017). Investors, therefore, may relocate their capital to other opportunistic ventures, resulting in a liquidity shortage for Vietnamese SMEs. Vietnam would therefore attract higher amounts of funding if it developed its regulatory framework – providing more security and reassurance for investors.

Another benefit of developing a robust regulatory system is that it helps to provide macroeconomic stability – which is additionally good for capital markets. Historically, financial crashes have often been the result of faulty reporting (Barth and Landsman, 2010). Incorrect or misleading financial statements have led to misinformation, and investors allocate funds based on false pretences. This leads to a loss of investment, followed by a mass exodus of liquidity, as investors flock to mitigate their losses. In the absence of reliable accounting standards, misallocation of funds results in less financially credible firms receiving investment. Many interviewees spoke to the importance of accounting standards in attracting more investment as a source of security for investment as it provided confidence in projected levels of growth and a strong balance sheet:

> *Companies need to ensure that there is a comprehensive system with institutions of accounting, valuation and auditing in order to ensure the numbers presented are fair (TT1, 2017)*
>
> *When you are a foreign investor, participating in a capital raise, there is a strong chance of a company completely manipulating financial statistics (and this has happened to us and companies we've invested with) where we've bought in at 100 and the next day the owner raises money from friends and family at 80 and it dilutes us. (FA2, 2017)*

In general, Vietnam's accounting and auditing standards are behind that of its South-East Asian counterparts, particularly for SMEs (Son Dang-Duc, 2011). This is because, historically, Vietnamese companies have tended to avoid international auditing firms under the impression that they are a hindrance to business. However, development over the last few decades has meant that more SMEs are committing to transparency. Informants spoke of how having a well-established, third party auditor was a pre-requisite to doing business in Vietnam:

> *Usually part in parcel of us getting involved will be us being insistent on a KPMG or a PWC to actually audit their books because you know Vietnam like so many emerging markets and so many family businesses everywhere…there tend to be multiple sets of books. (FA2, 2017)*

Indeed, for many of the business owners interviewed, making use of an external and internationally recognised accounting firm was imperative for their company: *"Now that we are a bigger firm, it is necessary to ensure that all of our books are professionally audited by an external company."* (BO3, 2017). This was because for SMEs willing to "break" into the next stage of business development, adhering to international accounting and auditing standards was a requirement (Malesky et al., 2015). While SMEs have proliferated throughout the country and international investors have been generous in their allocation of funds towards such firms, the next phase of development in order to achieve sustainable, long-term growth of businesses in Vietnam is the evolution of accountancy and auditing standards (Taussig, 2005). Indeed, Malesky et al's analysis (2015) of firms in Vietnam finds that there is a strong relationship between higher levels of transparency and investment.

Finally, making the capital market more advanced through the introduction of more derivatives products would attract more investors to the market. Derivatives are an innovative concept for capital markets in emerging economies, giving the opportunity for investors to hedge exposure to risk. According to my respondents, a local currency derivative market is of importance as it allows for foreign exchange and interest rate risk:

> *It is a long only market too, no ability to short [bet on the asset going down] holds it back. Introduction of derivatives or other complex financial products would be essential to its maturity. (FA2, 2017)*

Currently, the derivatives market is under construction and commentators are optimistic about its development in the near future. By making it available to both Vietnamese and foreign investors, it will lead to a more attractive economy for investors to allocate funds in.

The main benefit of derivatives markets is that investors can offset risk, encouraging more parties to speculate in the Vietnamese capital markets. Institutional and foreign investors would have more confidence in investing in Vietnamese corporates (bond and equity), knowing that there was a degree of risk mitigation:

> *Previously where investors were fearful of investing into riskier securities, derivatives give them an option to minimise that risk. That means areas that previously were avoided are now going to receive inflows of capital. (FA2, 2017)*

This holds particularly true for emerging markets, where investing is inherently more risky. For example, options trading can allow the investor to benefit from maximum upside, whilst limiting the downside. A call option contract gives the right but not the obligation to buy the asset at an agreed price on or before a set date. The investor pays a premium, which acts like an insurance against a price crash. Overall, less capital is at risk and investors are able to enjoy the unlimited upside potential.

Where previously investors avoided particularly riskier sectors of the economy, development of the derivative markets will facilitate their growth. The nature of funds allocation is likely to shift, as riskier industries previously struggled to attract larger injections of funds. For example, Vidra (2014) asserts that the fast-growing technology sector in Vietnam faced difficulty in achieving equity financing in recent years. Instead, technology SMEs rely on bank-based credit in order to expand their business. However, recent developments in the capital markets and derivatives market have been orientated around supporting Vietnam's ICT sector (Ministry of Finance, 2010), as this has been identified as a key area for growth in the future.

Before the capital market implements the derivatives market, it is imperative that they establish a strong supervisory body in order to regulate participants. In line with this, the State Security Commission (SSC) of Vietnam monitors how traders in the derivatives market conducts their behaviour. Regulatory bodies in Vietnam put in place mitigate systematic risk. While derivatives do undertake important risk transfer functions, they are additionally used to "speculate, manufacture exotic risk cocktails, keep dealings off-balance sheet and out-of-sight, increase leverage and arbitrage regulatory or tax rules"

(Financial Times, 2010: 2). This argument is reinforced by Ghysels and Seon (2005) who argued that the trading of futures contracts had a profound destabilising effect on asset prices in South Korea during the 1997 Asian Financial Crisis.

Subsequently, there is an argument to make that Vietnam should not adopt such a complex suite of projects, particularly as bond and equity markets are still in their embryonic stage. While derivatives markets do have their place in a number of economies, and the nature of them allow more complex approaches to risk management, for Vietnam the implementation could be somewhat overwhelming. Even in developed markets, where regulatory structures are well-established and transparency is significantly more advanced than Vietnam, derivative products can be dangerous. Tracing the financial histories of a number of other countries provides some valuable lessons to be learnt from a number of countries. Indeed, their very illiquid nature and multifaceted composition warrants extreme caution. In this light, many informants explained that Vietnam should focus on developing the "basic" foundations of the capital markets, before getting too advanced.

However, this was not a consistent theme among all respondents, some of which felt that regulation in Vietnam was too strict. From this perspective, overbearing regulation acts as a curtailment to innovation and efficient operability of the markets:

> *I think there is a lot of deregulation that needs to happen with the securities market to make it a true international standard market. Among other things, there are still restrictions, very severe restrictions, over foreign investors. They need to be lifted or liberalised quite significantly. (FA2, 2017)*

Thus, striking the balance between regulation and liberalisation poses a challenge for the Vietnamese State, particularly when introducing new products such as derivatives. Their paradoxical nature of being "risk-mitigating" while ostentatious and potentially dangerous exude the need for scrutiny and oversight.

4.6 Political-Economic Analysis

Despite unanimous policy recommendations stipulating that SOE reform, deregulation of foreign restrictions and improving accounting and auditing standards are essential to the development of the capital markets, critics argue that the Vietnamese State's overbearing role in economic governance is the underpinning factor. Moreover, foreign investors are limited in how much of a company they can own and levels of transparency lag behind developed economies. The question, then, is as to why, even two-decades after the birth of the capital markets, Vietnam has not followed IMF, OECD and WB recommendations. In short, given what Vietnam knows about the financial history of developed economies, why has the government not followed a similar pathway?

Although the previous section supports the idea that reforms in the business-economy are required in order to develop the capital markets in Vietnam, addressing these issues alone will not ensure sustainable financial development. Instead, this section argues that these solutions are too simplistic – Vietnam is unique. Current literature underplays the importance of the complexity in the political-economic framework of Vietnam. Government officials and SOE stakeholders have an overwhelming level of control on economic decisions. Thus, the bureaucratic regime should become the focal point of future investigation. Investors, academics and policy makers are required to understand Vietnam through a political-economic lens before making policy recommendations, as these factors shape the direction of Vietnamese capital markets.

Research participants expressed differing explanations as to why, to date, economic reform has been a laborious process. Some informants praised the gradualist implementation of financial development policies – arguing that "big bang" approaches have historically had negative effects for that specific economy. Other interviewees felt that slow reform to date was necessary to maintaining socialist ideology, as well as allowing people to adapt to a market economy after having operated in a centrally planned economy for decades. By contrast, there were state-sceptics, who felt that the sluggish nature of economic reforms were a means to an end. That is, to support the formation of new business-state alliances. This section draws on the views of my research participants, seeking to understand why implementing basic policy advice has not worked in Vietnam so easily.

The first explanation for why financial development in Vietnam has developed over such a long period is because a gradualist approach takes time. Proper sequencing of liberalisation coupled with development of regulatory institutions is essential to capital market longevity, but the economy cannot implement radical restructure in such a short time. Many interviewees felt that part of the reason for Vietnam's reluctance to rapidly liberalise the financial sector was a result of "big bang" scepticism. Critics of the big bang approach argue that a rapid switch to a deregulated financial system can have disastrous effects for the economy, in some cases inducing a financial crash. An analysis of rapid financial liberalisation in Thailand displays the shortfalls in such a method, as a lack of institutions results in unconstrained flows of funds. U1 (2017) explained that after having seen the pitfalls of excessive financial deregulation in neighbouring emerging economies such as Thailand, it is easy to understand why Vietnam's financial trajectory has been slower than expected.

While the basic elements of Thailand's financial deregulation mirrored Vietnam's, different sequencing and pace of reforms distinguishes the results. Thailand began extensive financial liberalisation under the application of the Alien Business Law (1972) and the Investment Promotion Act (1977), which encouraged foreign institutions to lend to firms in Thailand with minimal restrictions. The next stage was extreme liberalisation of exchange controls in the 1990s, which hoped to stimulate more FDI into the economy. Following this, the State accelerated growth in the role of private banks and financial institutions by reducing government intervention in the market and deregulating funding requirements – hoping to improve financial efficiency. Finally, the Bangkok International Banking Facility (1993) offered a number of incentives in order to leverage more foreign credit. For example, Thai Banks enjoyed tax breaks if they borrowed from abroad – as they hoped to leverage foreign credit. The quick succession of liberal financial policies combined with the floating of the Thai Baht led to the mass accumulation of foreign debt. Excessive levels of capital inflows popped asset bubbles, as the property market crashed in 1995 and the stock market in 1996. Where previously Thailand had promised investors lucrative returns, the depreciation of the Thai baht ignited a mass exodus of funds, and the economy collapsed. Excessive and unregulated liberalisation sparked the onset of the Asian Financial Crisis in 1997.

Vietnam, however, adopted a different approach to financial development – ensuring that restrictions prevented piling amounts of foreign debt. This meant was that the impacts of the AFC on Vietnam were limited, although Vietnam still experienced lower growth rates following 1997[40]. Informants interviewed explained the slow development of financial liberalisation in Vietnam was a strategic move and part of the gradualist approach:

> *Vietnam is just adjusting to the capital markets. It is not going to happen overnight. The stock exchanges only been about for just over a decade or so (TT2, 2017)*
>
> *If you don't build world-class financial institutions then you're exposed to financial turmoil. I think it is important for people to bear in mind that Vietnam's regulatory framework is underdeveloped and that is why there are still heavy restrictions. (FA5, 2017)*

[40] GDP growth slowed down from 9.3% in 1996, to 4.8% in 1999. However, this was marginal when compared to its Asian counterparts. Thailand for example suffered a shrinkage of growth from 5.7% in 1996 to -7.6% in 1998 (Trading Economics, 2017).

Indeed, while basic policy prescriptions recommend relaxed laws on global integration – as it has served to benefit the emerging economies to a large degree[41] – solutions are not that simple. Vietnam, in particular, has exercised caution in ensuring that the economy is not overly dependent on foreign credit. Vietnam's sequential financial liberalisation involved imposing restrictions on foreign bank presence and caps on foreign holdings of Vietnamese equity. In this case, the correct application was crucial for Vietnam in deterring the potential pitfalls of financial liberalisation.

Yet, this slow process of reform does not explain why SOEs are so dominant. According to PwC's CEO Pulse Survey (2015), there are three key motivations for government ownership which are: to further social outcomes, to provide physical infrastructure and to create stability in times of financial crisis. The survey presents an insight, therefore, into why SOE reform has been slow. According to my interviewees, the State needs to maintain control over strategic industries and run the economy in the interests of the people; ensuring excessive inequality does not occur. In the case of Vietnam, informants described that SOEs are an instrument of the State, used to subsidise necessity goods and provide employment. Specifically, the State will subsidise the cost of particular goods, deemed necessary, in order to ensure that the market does not price people out of buying it. For example, petrol is one such good. In Vietnam, petrol is viewed as a "necessity good" (FA2, 2017) and therefore is heavily subsidised by the State. Without subsidisation, the cost of petrol would be too expensive, given the current wage rates[42]:

> *State-owned enterprises subsidised a lot of the goods and services that were previously too expensive for everybody to afford. Petrolimex, for example, is a state-run company (FA2, 2017)*

The State intervenes in the market, through SOEs, exerting a level of control in the oil and gas sector, in order to ensure widespread access. In this way, the state provides petrol as a "public good", which would otherwise price people out of using a necessity good. Ultimately, the State has furthered social outcomes.

Given the role of SOEs in the economy, as both an employer and provider of goods and services, the Vietnamese State has struggled to radically reform the state sector. For example, despite their inefficiencies, SOEs have historically contributed to annual levels of GDP (~30%), exports (~50%) and job creation (1.2million/year). Moreover, SOEs, theoretically, conduct business operations in the interests of society (McCargo, 2004) – a fundamental principle of socialist ideology. Although criticised for inefficiencies, proponents of SOEs argue that this is because maximising employment is a core function (Sjöholm, 2006). By contrast, private firms are more stringent with their labour expenditure, looking to cut costs where possible. It is in the nature of SOEs to provide jobs for the population, rather

[41] Through increased investment and a larger export market.
[42] In 2015, the average monthly wage rate was approximately USD 224.

than chasing profit maximisation. Therefore, according to this view, SOEs meet their expected requirements – as they preserve and generate employment in the national interest[43]:

> *Most people have a job in Vietnam. That's what SOEs do; they provide people with jobs and some basis of regular income. While they might not be making profit, at least they reduce inequality. (FA4, 2017)*
>
> *You cannot undo such a big sector of the economy overnight. Millions would become unemployed and costs of goods would go up. Restructuring an economy takes time and the government has to ensure they do it right.* (TT3, 2017)

Thus, as McCarty (1999) notes, state enterprise reform – in any transitional economy – will inevitably engender unemployment and spark social unrest. Fritzen (2002) found that, despite having achieved extraordinary rates of growth in recent years, inequality has risen as a result. Specifically, as SOEs no longer provide mass employment, income inequality is on the rise. Indeed, despite having a wealthier economy overall than several comparator countries, Vietnam ranks towards to bottom end for per capita income (Fritzen, 2002). Consequently, respondents explained the State was reluctant to initiate radical reforms in fear of causing inequality[44]. Overall, following "basic" policy advice is more complex than simply equitisation. In order to ensure successful reform, the government must take into account a multitude of factors and be meticulous in its approach to strike the right balance handing over control to the free market and governing the economy in the interests of economic welfare.

SOEs, therefore, are a vehicle for implementing Vietnam's ideological vision, as principles of socialism determine the nature of resource allocation. Considering Vietnam's socialist orientation, this is an explanation for why they have not followed SOE reform recommendations set by institutions specialising in developmental economics. As a result, there has been a conflict of interest in Vietnam, between reforming SOEs and developing the market-mechanisms against the provision of socialised industries. On the one hand, the free market allocates scarce resources most efficiently. On the other, SOEs help to mitigate excessive levels of inequality through the job allocation and subsidised goods that would otherwise leave people priced out. In short, from the perspective of the Vietnamese government, it is better to tolerate inefficiencies and benefit the whole of society, rather than hand complete control to the private side and increase inequality. Formulating a coherent plan on how best

[43] However, the extent to which the State does meet employment requirements is questionable. In recent years, the State sector's ability to generate employment has been compromised. The SOE sector only accounts for 15% of total employment in the economy. (https://www.export.gov/article?id=Vietnam-Competition-from-State-Owned-Enterprises)

[44] In addition to Vietnam, Katsuji's (2000) analysis of SOE reform in China explained how following privatisation in the latter half of the 20th century resulted in high unemployment, increased cost of living and social tensions. Specifically, the number of workers dropped from 105million to 78million between 1996 and 2000 – marking a 25.7% decrease. While private sector rates of employment increased, it did not make up the difference (Kanamori and Zhao, 2004).

to reform SOEs, whilst adopting a market-based economy, therefore complicates basic policy advice, explaining why financial systems are still underdeveloped.

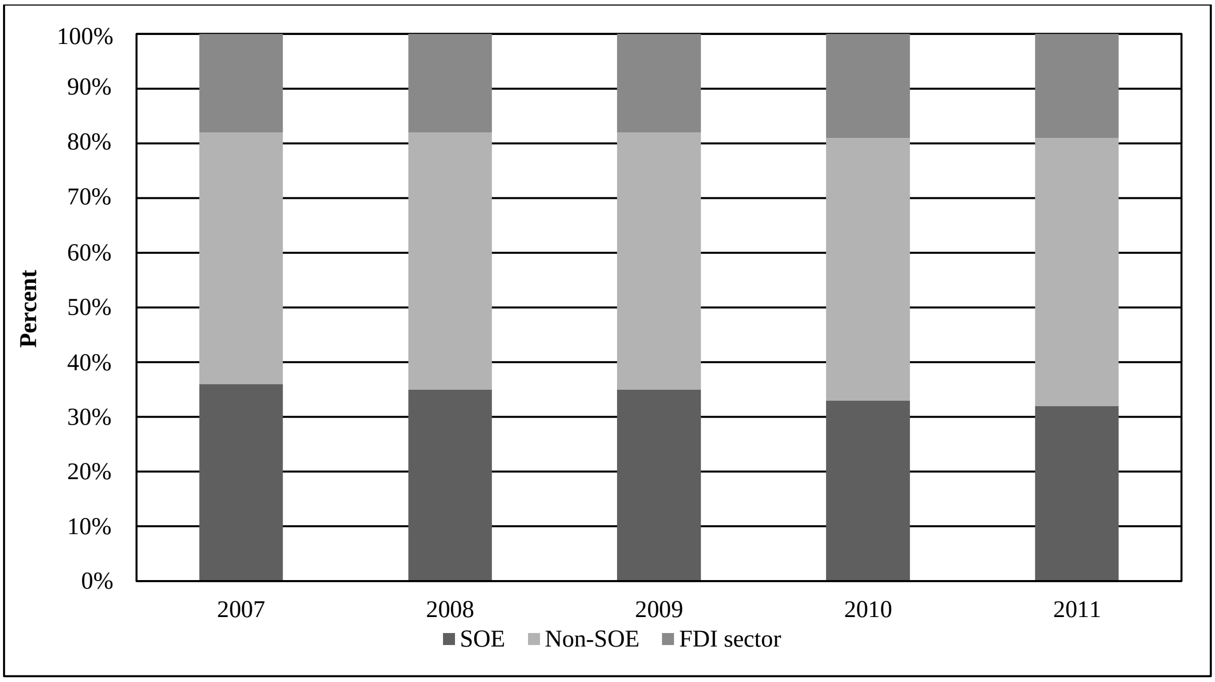

Figure 24: SOE contribution to GDP in Vietnam, by types of ownership (2007-2011)
Source: GSO (2017)

A more critical theory was that state sector reform is characterised by a political hunger to maintain state power and further crony capitalism. As discussed in previous chapters, relationships with government officials inherently define business success in Vietnam. Indeed, politically connected enterprises enjoy particular advantages in business – most notably in accessing credit. Research participants, therefore, felt that the state-led development strategy was a means to an end to fulfil its own desires rather than to improve the welfare of the general population.

The first sub-theory that emerged from this theme was that SOEs deliberately delay the process of reform in order to maintain positions of power (FA1, 2017). Privatisation of SOEs is a major threat to key stakeholders. Individuals in senior positions enjoy huge pay packets as well as additional benefits such as social status, security of employment and preferential access to economic resources. This problematizes SOE reform. According to Shimomoto (2003: 56), many SOEs consider "equitisation as an end of government support, they have a negative response to government initiatives". Therefore, government officials and SOEs work together to attain mutual benefit – ensuring that the SOEs do not reform. In return, politicians receive payment in the form of briberies. Many interviewees expressed a view that the State has become an agent of SOE stakeholders, exchanging monetary gifts for competitive advantage in business:

> *Politicians will gladly accept your money as a gift. There is an old Vietnamese saying, 'money first, everything else after.' (BO1, 2017)*

Of course the State and businesses work together. Why wouldn't they? From the businesses perspective, you have a competitive advantage, in almost every sphere of the economy. And for the politicians, well they just get more and more money. (FA1, 2017)

Imagine… the Prime Minister's salary in Vietnam is about $20 million a month. A lot is from bribes. How can you not be corrupt? (BO1, 2017)

While obtaining evidence to support this theory is difficult, extensive literature emphasises the importance of political networks in business success (Le and Nguyen, 2009; Venkatesh and Nguyen, 2006; Malesky and Taussig, 2008). Many interviewees additionally expressed that there are high levels of corruption and a number of "grey areas" between businesses and the State. Favourable relationships between particular business owners and the State are beneficial to both parties, begging the question as to why state reform would be accelerated.

The second sub-theory that emerged from the idea of business-state relations was more complex. Some interviewees expressed the idea that the reform process had been a means to an end for the State to reaffirm power. Increasing societal pressure in 1986 drew attention to economic turmoil and SOE inefficiencies, leaving the State with little option but to restructure the economy. However, while the reforms of the Doi Moi appear to be breaking down state bureaucracy, informants argued a different perspective. Interviewees believed that the State introduced financial development policies in order to maintain authority and facilitate a new sector of the economy, that is, partnerships between state and businesses based on corruption. Informants explained that the State could additionally benefit from privatisation, as collaborating behind closed doors would mean more advantages for government officials involved in the deal. Moreover, they stated that the State liberalised the economy in fear of another civil war breaking out or a revolution against persistent corruption – it was easier to liberate the economy than it would be to deal with protests and uprising. Little was to be lost from liberalisation, as those at the top of the political hierarchy would maintain their position of power. Painter (2005) voices a similar theory, arguing that financial liberalisation in Vietnam has consolidated state power and established new state-business alliances. Therefore, resulting in the formation of a new commercial environment, continuing the plutocratic elite. Indeed, the integration of Vietnam into global capital markets was anything but a threat to the Vietnamese government. Rather, it allowed the State to "salvage and refine a managerial regime whose previous policies had seriously tarnished it" (Woodside, 1997 quoted in Painter, 2005). One interviewee questioned why anyone in a position of power would want to initiate change, explaining that economic reform was little more than a façade:

Basically where previously you had state-owned companies and their inefficiencies, you now have state-private companies and their corruption… The State benefits from a vibrant private sector, because a portion of the money is channelled to them… SOE reform is slow because the people are happy where they are. Why would they want things to change? Many people at the *top are delaying the process of equitisation so that they can maintain their authority and their wealth. (BO1, 2017)*

However, corruption extends beyond SOEs, as slow progress in reforming accounting and auditing standards to date have overwhelmingly cited as a critical issue. According to my informants, the main reason why accounting and auditing systems remain underdeveloped is that levels of corruption between businesses and government are high. For companies under review, manipulation of company reports are often a strategic move to avoid paying taxes[47]. A number of interviewees expressed that even *independent* auditors were subject to corruption. Many drew on examples of where cash, in the form of bribes, has been an essential part of negotiation between auditors and effective reporting of financial numbers:

SMEs try to get the balance between paying minimal taxes but also raising capital, and that's why they'll have multiple books. (TT1, 2017)

They [auditors] make up things, like "that salary is too high", "this doesn't count as an expense" or "this red receipt is wrong in some way". Then they come up with a stat of maybe $10,000. And then we have to increase our profit by $10,000. We discuss, an envelope is slipped and it comes about $4,000. So we pay a tax and an envelope and that is it. Every year they have to physically audit and negotiate more tax for the government. It's a fact of doing business in Vietnam. (TT1, 2017)

Even listed companies that are audited by international companies in Vietnam is even messed up, because it is hard not to be crooked if you're in a crooked country. (BO1, 2017)

Interviews revealed that the extent of the problem by stating that corrupt dealings are ingrained Vietnamese culture. Thus, the root of policy changes lies with within the political economic structures. In this light, corruption is deep-rooted in business practices. Thus, the root of policy change lies deeper than a blanket approach, there is no generic or easy fix. Instead, greater focus must be applied to the political-economic structures if progress is to be made.

From this perspective, the delayed process of liberalisation is a result of a corrupt political-economic framework. Financial reform was a medium through which to retain political power, silencing pressures from society. Subsequently, political power advances business development for the well connected. For those working in SOEs, politicians have delayed reform to receive a constant stream of bribery income. For those working in private firms, politicians ensure they enjoy favourable business conditions, for the same reasons. In both instances, Vietnam ignored basic policy recommendation for financial

[47] As higher earnings means higher taxation.

development. Corrupt business-state alliances are one potential explanation for lacklustre implementation of basic policy.

5. Conclusions

This dissertation has outlined the journey of Vietnam's financial development, from the perspective of business owners, academics and financial analysts. Shifts in political ideology have governed the pathway for economic reform in Vietnam, and consequently altered the nature of funds allocation for SMEs. The objective of this research was to extend work done on financial development in emerging markets, with a nuanced approach of providing a narrative. Financial economics is a largely dominated by quantitative analysis, paving way for qualitative research to bring nuance to the debate. By engaging in deeper conversation and probing questions, this thesis was able to look beyond modelling of numbers and tease out further explanations and causality. In response to the research questions, this paper makes four arguments.

First, financial development in Vietnam has had positive effects for the economy. Enhanced provision of investment services has meant that more SMEs in Vietnam have been able to expand and grow their business. As the Vietnamese economy evolves, investment channels have diversified away from State control. Accessing funds has been facilitated by bank-based services, FDI and capital markets. However, SMEs face a number of barriers when attempting to raise funds; namely a lack of connections, a lack of previous business experience and a lack of collateral. At the start of Vietnam's financial liberalisation, financial development engendered growth as it provided new opportunities to access funding and fuel expansion projects (supply leading). However, as time has gone on, more developed financial systems are required to keep up with the pace of economic growth. In this way, the finance-growth nexus has been demand following. The Vietnamese economy has grown to such scale that a funding gap exists. Financial systems in Vietnam are required to develop and modernise, similar other south-eastern Asian neighbours, if economic growth is to continue at current rates.

Second, financial development has changed the nature of funds allocation and generated winners and losers as a result. The agriculture, real estate and construction industries benefit from easier access to finance. The State maintains an active role in shaping the economy, rather than exerting totalitarian control over business. In this way, capital flows are governed by the State, towards areas that are understood to be "strategic". Moreover, enhanced global integration has enabled more funds to enter the circular flow of the economy. Where previously businesses understood to be too risky were unable to access finance, this is no longer the case. This has meant that the nature of funds allocation has shifted away from industries previously dominated by relational-financing towards more prosperous enterprises, as well as ones deemed to be more 'risky'.

Third, although this dissertation holds a neutral stance over the sequencing of liberalisation, Vietnam provides additional evidence that a gradualist approach enhances efficient allocation of resources, whilst avoiding excessive boom and bust cycles. Frontier economies and emerging markets could benefit from understanding Vietnam's story of financial development. They can learn from the progress made, but also the criticisms from international investors. Namely, this involves enhancing corporate governance to achieve the desired results in capital accessibility, stimulating more investment. It is a consistent theme among basic policy advice, that enhancing transparency, disclosure and financial reporting instils investors with greater confidence. A commitment to better accountancy standards is likely to have beneficial macroeconomic effects, engendering a more productively efficient economy.

Fourth, basic policy advice for financial development does not work because countries are inherently unique. Rather, academics and policymakers have to look to the political-economic structures of the economy in order to address *how* to promote financial development. In the Vietnamese context, hierarchies of power and business are dominated by corruption and crony capitalism – preventing efficient allocation of scarce resources. In order to attract more investors and ensure that capital markets operate effectively, the Vietnamese economy needs to breakdown structures of power and ideology that plague financial development.

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Appendix

Sample of questions used in interviews:

1) What was the Vietnamese economy like before 1986?
2) How did the state operate at this time?
3) How did business operate at this time?
4) What were some of the key policies designed at this time to progress the economy?
5) How did businesses respond to the change in policy direction?
6) What are some of the factors that currently restrict financial development in Vietnam?
7) What are the primary sources of capital in Vietnam?
8) To what extent does “policy lending” still play a part in the allocation of capital?
9) What are some of the sectors which have benefitted as a result of financial development?
10) What has been the impact of foreign banks in Vietnam?
11) What additional reforms are required to develop the capital markets?
12) What role do SOEs play in the economy?
13) Do you think the derivatives market as a place in Vietnam?
14) If you are a business owner, what are some of the advances you would like to see in the Vietnamese financial system in order to raise capital more efficiently?
15) How would you describe your experiences of financial development in Vietnam?
16) Are there any other points of discussion that might be relevant to my project?